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1982 Management Report

For Retail Hardware Stores

NRHA
National
Retail Hardware
Association

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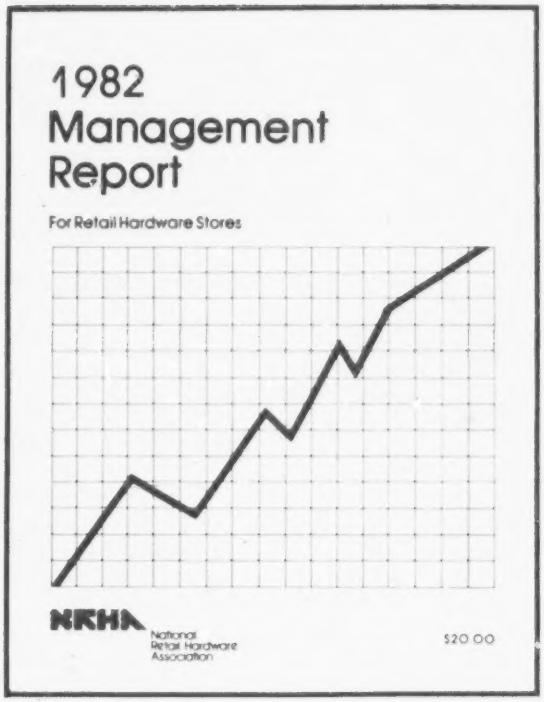
Contents



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Introduction

Management Report

The 1982 Management Report presents financial operating data for the retail hardware industry. The Report is designed to fulfill several objectives: to assess the financial performance of the retail hardware industry in 1981; to provide comparative financial data so that retailers can measure their performance against other industry members; to provide a frame of reference for profit planning enabling hardware retailers to continually improve performance levels. Additionally the Report provides an excellent means for manufacturers, wholesalers and other interested parties to gain a better understanding of the retail hardware industry.

Four Major Sections

The Management Report is divided into four major sections: Average Operating Results, Strategic Profit Model, Departmental Sales, and New Store Data. All results are presented as averages, computed by adding all data for a given item and then dividing by the total number of entries.

Average Operating Results includes data on sales, operating expenses, profits and financial performance. Income statement items are presented as a percentage of net sales and balance sheet items as a percentage of total assets.

The **Strategic Profit Model** combines the principal elements of a firm's operating statement and balance sheet into a single profit planning equation, evaluating operating performance on return on net worth.

In **Departmental Sales,** information is presented on the percent of stores handling major departments found in retail hardware stores. The percent of net sales, sales floor, inventory and cost of goods sold are outlined both for handling firms only and for an average store profile. Departmental productivity is compared by calculating the gross margin return on inventory investment for each department.

In **New Store Data,** information on the required planning phases for new store development is presented.

Type of Store

Many factors influence a retail hardware store's cost of doing business. Therefore, Report data are shown in different ways in order that individual operators may make meaningful comparisons. Information contained in Average Operating Results is presented for the following store types:

- High and Low Profit
- Sales Volume Size
- Sales Floor Size
- Type of Ownership
- Trade Area Size
- Store Location: Part I
- Store Location: Part II
- Geographical Region
- Number of Stores

Methodology

The Management Report is made possible only through the cooperation of the retail hardwaremen and women who provided us with detailed information on their operation. Confidential mail questionnaires were sent to hardware store operators the end of February. Eight hundred and twenty-one usable returns were received by June 18, 1982 in time for inclusion in this year's Report.

All dealer survey forms were edited for completeness by NRHA's Research Services Department Staff. Forms were coded for computer processing and **all individual firm identification removed.** The data was keypunched by a service bureau and then processed by our own data processing department.

As thanks for their contributive efforts, each hardware store operator who submitted detailed financial information was provided a personalized computer analysis. This customized analysis compared each contributor's results with averages of all other stores in the same sales volume, sales floor, geographical area, and store location categories, as well as with the averages for the entire sample.

One Of A Series

National Retail Hardware Association publishes detailed Financial Operating Reports for three types of hardlines retailers. Studies which are available in addition to the hardware store Management Report are The Bottom Line for home centers and the Lumber/Building Materials Financial Report for consumer oriented outlets. Each segment of the concentrated hardgoods market is provided with its own cost-of-doing business comparison manual.

For Assistance

Assistance and aid in interpreting the 1982 Management Report may be obtained from your regional Hardware Association.

Highlights

Although 1981 sales are up from $490,836 to $515,032, gross margin and net profit before taxes have slipped somewhat. Gross margin is down .19% to 35.00%, and net profit is at 3.31% — a significant decrease from last year's 3.82%. Cost of goods sold is up only slightly to 65.00%, and payroll and other employee expenses actually dropped somewhat from 19.19% to 19.04%. Occupancy and other costs of doing business increased substantially, reflecting the "sky high" interest rates of the past couple of years. One thing we should point out is that the sales increase over 1980 figures presented below are *as reported to us* by the dealers – they are *not* the increase (decrease) over the figures presented in last year's book. The number of dealers participating in the survey dropped somewhat this year, and it is felt that those persons who did not particiapte did so because of poor operating results. Hence the reason for the unexpectedly high figures.

Type of Hardware Store	Net Sales $	Sales Increase Over 1980* (%)	Margin (%)	Net Profit On Sales (%)	Net Profit On Investment (%)	Stock Turns x
All Hardware Stores	515,032	+6.60	35.00	3.31	12.26	2.39
Low Profit	369,972	+5.73	33.45	(3.61)	(24.74)	2.07
High Profit	474,704	+8.23	38.03	9.88	24.30	2.35
Sales Volume Size						
Under $250,000	165,890	-2.26	36.36	1.96	5.52	1.65
$250,000 to $499,999	364,374	+4.35	36.02	2.85	10.47	2.10
$500,000 to $749,999	607,493	+8.32	35.60	3.56	14.24	2.49
$750,000 or more	1,324,765	+9.20	33.79	3.75	14.36	2.82
Sales Floor Size						
Under 3,000 Sq. Ft.	248,968	+8.78	35.26	4.23	12.51	2.27
3,000 to 4,999 Sq. Ft.	375,405	+5.14	34.30	3.76	12.31	2.45
5,000 to 9,999 Sq. Ft.	569,700	+5.99	35.94	3.61	12.42	2.33
10,000 Sq. Ft. or more	1,219,075	+9.44	34.93	2.99	12.87	2.58
Type of Ownership						
Proprietorship	250,516	+3.02	33.50	3.27	9.46	2.03
Partnership	449,196	+5.21	29.66	5.22	17.06	2.92
Corporation	603,349	+7.22	35.49	3.17	12.30	2.42
Trade Areas Size						
S.M.S.A.-Central City	628,778	+11.45	38.69	2.86	13.67	2.61
S.M.S.A.-Suburban	651,240	+11.53	37.91	5.00	15.91	2.45
Cities-10,000-50,000	607,385	+6.45	34.57	3.14	11.87	2.51
Rural Areas Under 10,000	427,790	+4.65	33.59	3.22	11.26	2.27
Store Location: Part I						
Downtown	473,630	+5.21	34.87	3.80	12.00	2.40
Suburban	637,062	+9.13	36.00	3.50	14.56	2.44
Rural	429,124	+7.26	30.85	2.17	9.32	2.28
Store Location: Part II						
Shopping Center—Neighborhood	559,129	+10.58	36.33	2.82	13.22	2.43
Shopping Center—Community or Regional	522,773	+8.28	36.88	2.68	12.32	2.08
Free-Standing—No Stores Adjacent	629,451	+9.80	32.05	3.41	12.74	2.57
Free-Standing—Stores Nearby	475,692	+4.57	35.43	4.01	12.48	2.38

*As reported to us by contributing dealers

Monthly Sales

Shown below are the industry average percent of sales by month. As usual, December leads with a record breaking 11.0 percent. Sales by month during the rest of the year, however, are somewhat more erratic than usual, probably due to a lack of confidence in the economy on the part of the consumer.

	%
January	6.4
February	5.8
March	7.0
April	8.9
May	9.4
June	9.6
July	8.9
August	8.4
September	7.9
October	8.6
November	8.1
December	11.0

Average Operating Results

Income Statement Data

The Income Statement presents, in a single format, revenue derived from the sale of merchandise and expenses incurred to produce these sales. All Financial Report Income Statement data are presented as a percent of Net Sales, computed by dividing each item by the Net Sales.

Net Sales Volume — The dollar amount of cash sales plus credit sales less total deductions.

Total Deductions — Goods returned, discounts allowed, sales taxes and other taxes paid to secure licenses.

Cost of Goods Sold — Inventory First of the Year plus Purchases plus Freight In plus Shop Labor (Non-Employee) minus Purchase Rebates minus Inventory End of the Year equals Cost of Goods Sold.

Margin — The difference between Net Sales and the Cost of Goods Sold.

Salaries — Owners, Officers, Managers — The compensation including bonuses paid to owners, officers and store managers who work in the business.

Salaries — Other Employees — The compensation, wages and bonuses, paid to all other employees.

Federal and State Payroll Taxes — Federal and State Withholding, Unemployment Compensation and FICA Taxes.

Group Insurance — All premiums paid to insure employees for health and accident protection.

Benefit Plans — The employers' share of cost for employee welfare/benefit plans — life insurance, retirement, education, etc.

Heat, Light, Power and Water — All utility expenses incurred in the operation of the business.

Repairs to Building — All charges for incidental repairs which keep the building in ordinarily efficient operating condition.

Leasing Expenses (Non-Occupancy) — All costs involved in leasing furniture, fixtures, machinery and office equipment, delivery equipment, etc.

Office Supplies and Postage — The cost of all materials used for the firm's accounting records.

Rent or Ownership in Real Estate — Rent is the amount paid for properties used in the business. Ownership includes current year taxes, insurance, depreciation and interest on mortgages on land and buildings used in the business.

Advertising — Newspapers, circulars, calendars, radio and television spots, dealer's share of cooperative advertising and materials used in sales events.

Donations — All gifts given from the business operation to charity.

Telephone and Telegraph — For expenses incurred in the operation of the business.

Bad Debts — Uncollectable debts.

Delivery (Other than Wages) — All expenses incurred in the operation of delivery equipment; gas, tires, etc.

Insurance — Premiums paid to insure all assets against fire, theft, etc.

Taxes — All taxes on stock, fixtures, delivery equipment, etc.

Depreciation — All depreciation on furniture, fixtures, machinery and office equipment, delivery equipment, etc.

Credit Card Expense — Bank charges for processing credit card sales.

Interest on Borrowed Money — The amount of interest paid on borrowed money for all types of notes, loans.

Store and Shop Supplies — The costs of all supplies used in the operation of the store.

Legal and Accounting — The cost incurred for auditing, inventory count, collectors and legal consultation.

Computer Services — Any fees for outside computer services, plus all costs (excluding payroll) for establishing and maintaining a system in-house.

Dues and Subscriptions — Fees for memberships and subscriptions, and expenses for employee training.

Travel, Buying, Entertainment — All expenses incurred in business trips and the entertainment of guests.

Miscellaneous Services — All fees for services such as laundry, garbage disposal, snow removal, etc.

Unclassified — All expenses not classified under other headings.

Net Operating Profit — Return on sales before Other Income and Income Taxes, when expressed as a percent of Net Sales, indicates the percent return on each dollar of sales.

Other Income — Cash discounts earned, cash over or short, interest dividends, finance charges, commissions, tax allowances and rental and sundry income.

Net Profit (Before Income Tax) — The net return from the operation of the business.

Balance Sheet

The balance sheet is a statement of financial position at a given point in time; the Report presents year-ending balance sheets. The balance sheet equation is expressed as Assets equal Liabilities plus Net Worth.

Current Assets — Cash; notes receivable in the current year; accounts receivable (less reserve for doubtful accounts); merchandise inventories and other assets with a defined short-term life of one year — all prepaid expenses.

Investments — Assets with a long-term life such as stocks and bonds or real estate which are not needed to operate the business.

Fixed Assets — Assets with a long-term life which are needed to carry out a firm's normal business activities. The Financial Report includes only tangible assets at book value less accumulated depreciation. Included in addition to land, buildings and leasehold improvements are delivery equipment, machinery and office equipment, furniture, fixtures, etc.

Current Liabilities — All debts which are due within one year — accounts payable, current portion of notes payable, accrued payroll and other taxes, insurance, interest, etc.

Long-Term Liabilities — All debts, mortgages, and loans which mature or are due more than one year from the date of the balance sheet, deferred income taxes.

Net Worth — Total assets minus current and long-term liabilities equals net worth or the owner's equity in the business.

Financial Ratios

The financial position of a firm is determined from a review of its financial statements — the income statement and the balance sheet. The analysis of the financial performance of a firm views the interaction of the two financial statements through the measurement of proportions within the structure of the two statements. The proportions are tested by ratio analysis. Sixteen financial ratios are presented in this Financial Report.

Profit On Investment

—Computed by dividing Net Profit Before Taxes by Net Worth expressed as a percentage.

—Measures the return on the owner's invested capital and is the modern criterion for profitability. Today's hardware retailers should program their operations to achieve a rate of Return-On-Investment of at least 15% after taxes.

Active Owner's Return

—Computed by adding Owner's Salary to Net Profit Before Taxes and then dividing by Net Worth; expressed as a percentage.

—Measures the total return to owners and is applicable to proprietorships, partnerships and small corporations. This ratio allows comparison between operators with different philosophies regarding salaries and profits.

Current Asset Ratio

—Computed by dividing Total Current Assets by Total Current Liabilities; expressed in "times".

—Measures the ability to pay short-term Debts with Assets that may be converted to cash within a period of time corresponding to the maturity of the claims. The traditionally accepted minimum is 2 to 1 or 2.0 times.

Quick Asset Ratio

—Computed by dividing Current Assets minus Inventory by Current Liabilities; expressed in "times".

—Measures the ability to pay Current Debts from Current Assets without relying on the sale of inventory. The traditionally accepted minimum is 1.0 times.

Total Debt To Tangible Net Worth

—The Leverage Ratio, computed by dividing Total Liabilities by Tangible Net Worth; expressed as a percentage.

—Measures the owner's investment in comparison to financing provided by creditors and gives an indication of a firm's ability to acquire more debt.

Stock Turn Times

—Computed by dividing Cost of Goods Sold by Average Inventory at Cost (Beginning Inventory plus Year-end Inventory divided by two); expressed in "times".

—Measures the actual physical turnover of the inventory. A low rate of inventory turnover indicates the likelihood that a portion of the book value of the inventory includes obsolete or unusable items. A high ratio indicates efficiency in buying and inventory control; however too high a ratio may indicate the loss of potential sales due to inadquate stocking. Retail hardware store operators should achieve three turns or more per year.

Sales to Inventory

—Computed by dividing Net Sales by Average Inventory; expressed in "times".

—Measures merchandising efficiency and supplements the Stock Turn ratio in determining whether proper inventory control is achieved through scheduled and balanced buying.

Average Inventory Per Sq. Ft. of Sales Area

—Computed by dividing Average Inventory by Square Feet of Sales Area; expressed in dollar value of inventory at cost.

—A rough measure of merchandising efficiency.

Net Sales to Accounts Receivable

—Computed by dividing Net Sales by Accounts Receivable; expressed in "times".

—Measures the sales tied up in accounts receivable. This ratio is the most meaningful when compared to previous years' ratios, due to individual dealer policies of granting their own credit.

Net Sales to Total Assets

—Computed by dividing Net Sales by Total Assets; expressed in "times".

—Measures the use of all Assets to produce Sales. A high ratio may indicate over-trading on assets. A low ratio may indicate excessive investment resulting in idle capacity.

Net Sales to Net Worth

—Computed by dividing Net Sales by Tangible Net Worth; expressed in "times".

—Measures the extent to which sales are supported by invested capital.

Net Sales to Working Capital

—Computed by dividing Net Sales by Working Capital (Current Assets minus Current Liabilities); expressed in "times".

—Measures the demand on working capital to support the sales volume. A high ratio may limit the firm's ability to meet day to day debts.

Sales Per Sq. Ft. — Selling Area

—Computed by dividing Net Sales by Square Feet of Sales Area; expressed in retail sales dollars.

—Measures sales productivity.

Sales Per Sq. Ft. — Total Area

—Computed by dividing Net Sales by Square Feet of Total Area including warehouse and outside storage area; expressed in retail sales dollars.

—Measures sales productivity and indicates the amount of sales generated by each square foot of the total facility.

Sales Per Person Employed

—Computed by dividing Net Sales by the Total Number of Employees; expressed in retail sales dollars.

—Measures the efficiency of personnel in producing sales and is the most useful when compared to past performance.

Sales Per Customer

—Computed by dividing Net Sales by the Total Number of Customer Transactions; expressed in retail sales dollars.

—Measures the average sale per transaction. This ratio gives an indication of the store personnel's ability to make add-on sales.

All Stores

Income Statement Data	All Hardware Stores	Low Profit Stores	High Profit Stores
Number of Stores	821	205	206
Net Sales Volume	$515,032	$369,972	$474,704
Current Year's Sales vs. Previous Year*	+6.60%	+5.73%	+8.23%
Gross Sales	102.04%	102.01%	101.74%
Less: Total Deductions	2.04	2.01	1.74
Net Sales	100.0%	100.00%	100.00%
Cost of Goods Sold	65.00	66.55	61.97
Margin	35.00	33.45	38.03
Payroll and Other Employee Expense			
Salaries — Owners, Officers, Managers	5.27	5.17	5.63
Salaries — Other Employees	11.62	12.76	10.80
Federal and State Payroll Taxes	1.22	1.35	1.13
Group Insurance	.54	.61	.46
Benefit Plans	.39	.43	.43
Total Payroll and Other Employee Expense	19.04	20.32	18.45
Occupancy Expense			
Heat, Light, Power, Water	1.12	1.40	.98
Repairs to Building	.25	.27	.22
Rent or Ownership in Real Estate**	3.62	4.51	3.17
Total Occupancy Expense	4.99	6.18	4.37
Other Costs of Doing Business			
Office Supplies and Postage	.40	.48	.41
Advertising	2.30	2.77	1.82
Donations	.07	.07	.11
Telephone and Telegraph	.30	.40	.26
Bad Debts	.18	.19	.17
Credit Card Expense	.10	.07	.05
Delivery (Other than Wages)	.56	.63	.44
Leasing Expenses (Non-Occupancy)	.03	.02	.02
Insurance (Other than Real Estate and Group)	.86	.97	.74
Taxes (Other than Real Estate and Payroll)	.33	.28	.33
Interest on Borrowed Money (Other than Mortgages)	1.59	2.90	.78
Depreciation (Other than Real Estate)	.69	.89	.59
Store and Shop Supplies	.47	.59	.43
Legal and Accounting	.44	.53	.41
Computer Services	.08	.07	.08
Dues and Subscriptions	.09	.10	.08
Travel, Buying, Entertainment	.23	.24	.24
Miscellaneous Services (Laundry, Disposal, Etc.)	.13	.18	.11
Unclassified	.34	.45	.31
Total Other Costs of Doing Business	9.19	11.83	7.38
Total Operating Expense	33.22	38.33	30.20
Net Operating Profit	1.78	(4.88)	7.83
Other Income	1.53	1.27	2.05
Net Profit (Before Income Taxes)	3.31	(3.61)	9.88

*As reported to us by Management Report contributors.
**Ownership in Real Estate includes Taxes, Insurance and Depreciation on Land and Buildings and Interest on Mortgages.

All Stores

Balance Sheet Data	All Hardware Stores	Low Profit Stores	High Profit Stores
Total Dollar Assets	$264,504	$198,335	$266,108
		% of Total Assets	
Assets			
Cash and Equivalent	6.02	2.45	9.98
Notes and Contracts Receivable	3.60	2.84	3.94
Accounts Receivable	9.33	7.22	9.15
Merchandise Inventory (End of Year)	54.32	59.71	48.46
Other Current Assets	1.77	1.59	2.01
Total Current Assets	75.04	73.81	73.54
Stocks and Bonds	6.65	5.89	6.20
Real Estate (Not Used In Business)	.64	.32	1.23
Other Investments	2.64	1.33	3.60
Total Investments	9.93	7.54	11.03
Land (Owned and Used In Business)	1.35	1.63	1.20
Buildings (Owned and Used In Business Less Depreciation)	5.85	7.52	7.07
Leasehold Improvements (Less Depreciation)	.91	.83	.77
Furniture, Fixtures, Equipment (Owned and Used in Business less Depreciation)	4.83	6.40	3.53
Delivery Equipment (Owned and Used in Business less Depreciation)	1.54	1.49	2.21
Other Fixed Assets	.55	.78	.65
Total Fixed Assets	15.03	18.65	15.43
Total Assets	100.00%	100.00%	100.00%
Liabilities and Net Worth			
Accounts Payable	9.91	12.70	5.25
Notes Payable	6.68	12.20	2.64
Accrued Payroll Taxes	.52	.66	.43
Accrued Other Taxes	1.23	1.07	1.48
Other Accrued Expenses	2.24	1.57	1.92
Other Current Liabilities	1.28	1.10	.84
Total Current Liabilities	21.86	29.30	12.56
Notes Due Partners/Officers	7.50	9.46	4.66
Mortgage Payable	4.44	7.71	3.38
Long Term Debt	12.91	25.51	5.91
Deferred Income Taxes	.03	.20	(.03)
Other Long Term Liabilities	.72	.58	1.00
Total Long Term Liabilities	25.60	43.46	14.92
Total Liabilities	47.46	72.76	27.48
Net Worth	52.54	27.24	72.52
Total Liabilities and Net Worth	100.00%	100.00%	100.00%
Financial Performance			
Profit on Investment	12.26%	(24.74)%	24.30%
Active Owner's Return	29.42%	7.07%	36.16%
Current Asset Ratio	3.43x	2.52x	5.86x
Quick Asset Ratio	.95x	.48x	2.00x
Total Debt to Tangible Net Worth	90.37%	266.84%	37.88%
Stock Turn Times	2.39x	2.07x	2.35x
Sales to Inventory Ratio	3.67x	3.12x	3.79x
Average Inventory per Sq. Ft. Sales Area	$26.71	$23.89	$26.31
Net Sales to Accounts Receivable	20.87x	25.85x	19.50x
Net Sales to Total Assets	1.95x	1.87x	1.78x
Net Sales to Net Worth	3.71x	6.84x	2.46x
Net Sales to Net Working Capital	3.66x	4.19x	2.92x
Other Operating Data			
Incoming Freight — % of Purchases	.90%	1.09%	.94%
Credit Sales — % of Total Gross Sales	34.05%	33.03%	34.38%
Consumer Sales — % of Total Gross Sales	88.62%	90.57%	87.32%
Selling Area — Square Feet	5,766	5,312	4,793
Sales Per Square Foot — Selling Area	$89.32	$69.65	$99.04
Total Area — Square Feet	8,644	7,672	7,549
Sales Per Square Foot — Total Area	$59.58	$48.22	$62.88
Sales Per Person Employed	$59,628	$52,738	$59,314
Sales Per Customer	$9.08	$6.25	$9.12

Sales Volume Size

Income Statement Data	Sales Under $250,000	$250,000 To $499,999	$500,000 To $749,999	Sales $750,000 Or More
Number of Stores	221	315	148	137
Net Sales Volume	$165,890	$364,374	$607,493	$1,324,765
Current Year's Sales vs. Previous Year*	-2.26%	+4.35%	+8.32%	+9.20%
Gross Sales	102.10%	101.69%	101.91%	102.30
Less: Total Deductions	2.10	1.69	1.91	2.30
Net Sales	100.00%	100.00%	100.00%	100.00%
Cost of Goods Sold	63.64	63.98	64.40	66.21
Margin	36.36	36.02	35.60	33.79
Payroll and Other Employee Expense				
Salaries — Owners, Officers, Managers	7.43	5.91	5.23	4.44
Salaries — Other Employees	9.15	11.43	11.91	12.14
Federal and State Payroll Taxes	1.09	1.24	1.26	1.20
Group Insurance	.55	.53	.55	.54
Benefit Plans	.18	.16	.31	.63
Total Payroll and Other Employee Expense	18.40	19.27	19.26	18.95
Occupancy Expense				
Heat, Light, Power, Water	1.62	1.25	1.10	.94
Repairs to Building	.36	.26	.26	.21
Rent or Ownership in Real Estate**	4.23	3.93	3.77	3.22
Total Occupancy Expense	6.21	5.44	5.13	4.37
Other Costs of Doing Business				
Office Supplies and Postage	.53	.46	.39	.35
Advertising	2.44	2.30	2.47	2.19
Donations	.09	.06	.08	.06
Telephone and Telegraph	.47	.34	.29	.25
Bad Debts	.20	.16	.15	.20
Credit Card Expense	.05	.12	.13	.08
Delivery (Other Than Wages)	.92	.57	.61	.45
Leasing Expenses (Non-Occupancy)	.05	.04	.01	.03
Insurance (Other Than Real Estate and Group)	1.27	.97	.83	.72
Taxes (Other Than Real Estate and Payroll)	.34	.34	.35	.31
Interest on Borrowed Money (Other Than Mortgages)	2.24	1.97	1.71	1.17
Depreciation (Other than Real Estate)	.94	.76	.55	.65
Store and Shop Supplies	.62	.49	.42	.46
Legal and Accounting	.63	.54	.43	.34
Computer Services	.02	.05	.07	.11
Dues and Subscriptions	.13	.11	.09	.08
Travel, Buying, Entertainment	.29	.21	.25	.22
Miscellaneous Services (Laundry, Disposal, etc.)	.18	.12	.13	.12
Unclassified	.35	.27	.34	.39
Total Other Costs of Doing Business	11.76	9.88	9.30	8.18
Total Operating Expense	36.37	34.59	33.69	31.50
Net Operating Profit	-.01	1.43	1.91	2.29
Other Income	1.97	1.42	1.65	1.46
Net Profit (Before Income Taxes)	1.96	2.85	3.56	3.75

*As Reported to us by Management Report contributors.

**Ownership in Real Estate includes Taxes, Insurance and Depreciation on Land and Buildings and Interest on Mortgages.

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Sales Volume Size

Balance Sheet Data	Sales Under $250,000	$250,000 To $499,999	$500,000 To $749,999	Sales $750,000 Or More
Total Dollar Assets	$114,952	$200,863	$300,819	612,851
		% of Total Assets		
Assets				
Cash and Equivalent	5.19	6.25	6.91	5.64
Notes and Contracts Receivable	2.58	3.34	3.91	3.95
Accounts Receivable	6.12	7.71	9.18	11.60
Merchandise Inventory (End of Year)	56.51	56.72	53.67	52.17
Other Current Assets	1.10	1.74	1.80	1.96
Total Current Assets	71.50	75.76	75.47	75.32
Stocks and Bonds	6.19	7.09	7.10	6.22
Real Estate (Not Used in Business)	1.47	.54	.17	.71
Other Investments	3.21	1.92	2.22	3.23
Total Investments	10.87	9.55	9.49	10.16
Land (Owned and Used in Business)	1.42	1.51	1.51	1.13
Buildings (Owned and Used in Business less Depreciation)	8.83	4.95	6.04	5.54
Leasehold Improvements (Less Depreciation)	.46	.59	1.19	1.15
Furniture, Fixtures, Equipment (Owned and Used in Business less Depreciation)	4.93	5.04	4.48	4.82
Delivery Equipment (Owned and Used in Business less Depreciation)	1.37	2.27	1.29	1.18
Other Fixed Assets	.62	.33	.53	.70
Total Fixed Assets	17.63	14.69	15.04	14.52
Total Assets	100.00%	100.00%	100.00%	100.00%
Liabilities And Net Worth				
Accounts Payable	6.22	9.70	10.21	11.01
Notes Payable	8.73	7.41	6.23	5.74
Accrued Payroll Taxes	.53	.61	.55	.44
Accrued Other Taxes	.93	1.18	1.05	1.45
Other Accrued Expenses	.74	1.62	1.91	3.35
Other Current Liabilities	.64	1.35	.84	1.67
Total Current Liabilities	17.79	21.87	20.79	23.66
Notes Due Partners/Officers	7.07	8.54	8.26	6.45
Mortgage Payable	8.35	4.60	4.64	3.02
Long Term Debt	13.98	14.44	15.11	10.28
Deferred Income Taxes	.31	--	--	(.02)
Other Long Term Liabilities	1.35	1.07	.77	.25
Total Long Term Liabilities	31.06	28.65	28.78	19.98
Total Liabilities	48.85	50.52	49.57	43.64
Net Worth	51.15	49.48	50.43	56.36
Total Liabilities And Net Worth	100.00%	100.00%	100.00%	100.00%
Financial Performance				
Profit on Investment	5.52%	10.47%	14.24%	14.36%
Active Owner's Return	24.15%	30.16%	31.72%	29.28%
Current Asset Ratio	4.02x	3.46x	3.63x	3.18x
Quick Asset Ratio	.84x	.87x	1.05x	.98x
Total Debt to Tangible Net Worth	95.47%	102.16%	98.30%	77.41%
Stock Turn Times	1.65x	2.10x	2.49x	2.82x
Sales to Inventory Ratio	2.59x	3.28x	3.87x	4.25x
Average Inventory per Sq. Ft. Sales Area	$19.64	$24.71	$30.83	$29.90
Net Sales to Accounts Receivable	23.58x	23.53x	21.99x	18.64x
Net Sales to Total Assets	1.44x	1.81x	2.02x	2.16x
Net Sales to Net Worth	2.82x	3.67x	4.00x	3.84x
Net Sales to Net Working Capital	2.69x	3.37x	3.69x	4.18x
Other Operating Data				
Incoming Freight — % of Purchases	1.27%	1.03%	.93%	.74%
Credit Sales — % of Total Gross Sales	30.94%	32.53%	34.46%	35.42%
Consumer Sales — % of Total Gross Sales	90.98%	87.96%	88.50%	86.47%
Selling Area — Square Feet	3,482	4,839	6,405	10,758
Sales Per Square Foot — Selling Area	$47.64	$75.30	$94.85	$123.14
Total Area — Square Feet	4,993	7,173	9,648	16,679
Sales Per Square Foot — Total Area	$33.22	$50.80	$62.97	$79.43
Sales Per Person Employed	$42,663	$55,767	$58,808	$67,949
Sales Per Customer	$5.53	$7.25	$8.56	$11.92

Sales Floor Size

Income Statement Data	Sales Area Under 3,000 Sq. Ft.	3,000 Sq. Ft. To 4,999 Sq. Ft.	5,000 Sq. Ft. To 9,999 Sq. Ft.	Sales Area 10,000 Sq. Ft. or More
Number of Stores	130	223	242	86
Net Sales Volume	$248,968	$375,405	$569,700	$1,219,075
Current Year's Sales vs. Previous Year*	+8.78%	+5.14%	+5.99%	+9.44%
Gross Sales	101.79%	101.86%	102.19%	102.49%
Less: Total Deductions	1.79	1.86	2.19	2.49
Net Sales	100.00%	100.00%	100.00%	100.00%
Cost of Goods Sold	64.74	65.70	64.06	65.07
Margin	35.26	34.30	35.94	34.93
Payroll and Other Employee Expense				
Salaries — Owners, Officers, Managers	6.93	6.29	5.19	4.40
Salaries — Other Employees	10.27	10.13	12.41	12.39
Federal and State Payroll Taxes	1.19	1.16	1.23	1.21
Group Insurance	.47	.58	.53	.60
Benefit Plans	.26	.22	.37	.72
Total Payroll and Other Employee Expense	19.12	18.38	19.73	19.32
Occupancy Expense				
Heat, Light, Power, Water	1.10	1.06	1.12	1.09
Repairs to Building	.28	.27	.25	.23
Rent or Ownership in Real Estate**	3.03	3.40	3.87	3.66
Total Occupancy Expense	4.41	4.73	5.24	4.98
Other Costs of Doing Business				
Office Supplies and Postage	.54	.46	.37	.35
Advertising	1.84	2.09	2.35	2.51
Donations	.10	.07	.06	.07
Telephone and Telegraph	.38	.31	.29	.28
Bad Debts	.19	.19	.16	.18
Credit Card Expense	.06	.14	.09	.10
Delivery (Other Than Wages)	.74	.65	.57	.40
Leasing Expenses (Non-Occupancy)	.03	.04	.02	.05
Insurance (Other than Real Estate and Group)	1.02	.94	.84	.73
Taxes (Other than Real Estate and Payroll)	.27	.27	.39	.37
Interest on Borrowed Money (Other than Mortgages)	1.28	1.46	1.52	1.61
Depreciation (Other than Real Estate)	.76	.60	.65	.72
Store and Shop Supplies	.52	.43	.44	.46
Legal and Accounting	.57	.53	.40	.40
Computer Services	.02	.07	.08	.06
Dues and Subscriptions	.12	.10	.10	.09
Travel, Buying, Entertainment	.26	.27	.21	.23
Miscellaneous Services (Laundry, Disposal, etc.)	.19	.09	.12	.15
Unclassified	.69	.24	.30	.44
Total Other Costs of Doing Business	9.58	8.95	8.96	9.20
Total Operating Expense	33.11	32.06	33.93	33.50
Net Operating Profit	2.15	2.24	2.01	1.43
Other Income	2.08	1.52	1.60	1.56
Net Profit (Before Income Taxes)	4.23	3.76	3.61	2.99

*As reported to us by Management Report contributors.

**Ownership in Real Estate includes Taxes, Insurance and Depreciation on Land and Buildings and Interest on Mortgages.

Sales Floor Size

Balance Sheet Data	Sales Area Under 3,000 Sq. Ft.	3,000 Sq. Ft. To 4,999 Sq. Ft.	5,000 Sq. Ft. To 9,999 Sq. Ft.	Sales Area 10,000 Sq. Ft. Or More
Total Dollar Assets	$136,807	$202,677	$302,274	$583,896
		% of Total Assets		
Assets				
Cash and Equivalent	8.98	7.19	6.21	5.02
Notes and Contracts Receivable	2.03	3.02	4.51	3.97
Accounts Receivable	8.86	9.61	9.38	10.06
Merchandise Inventory (End of Year)	53.99	50.80	53.79	53.90
Other Current Assets	.87	2.64	1.14	2.16
Total Current Assets	74.73	73.26	75.03	75.11
Stocks and Bonds	6.44	7.25	6.58	6.24
Real Estate (Not Used in Business)	.98	1.29	.17	.99
Other Investments	2.31	2.53	3.14	2.74
Total Investments	9.73	11.07	9.89	9.97
Land (Owned and Used in Business)	2.18	1.34	1.47	.89
Buildings (Owned and Used in Business Less Depreciation)	6.51	6.67	6.04	5.17
Leasehold Improvements (Less Depreciation)	.31	.56	1.24	1.03
Furniture, Fixtures, Equipment (Owned and Used in Business less Depreciation)	4.22	4.01	4.59	6.00
Delivery Equipment (Owned and Used in Business less Depreciation	1.79	2.39	1.26	1.09
Other Fixed Assets	.53	.70	.48	.74
Total Fixed Assets	15.54	15.67	15.08	14.92
Total Assets	100.00%	100.00%	100.00%	100.00%
Liabilities And Net Worth				
Accounts Payable	9.01	8.37	9.28	11.72
Notes Payable	6.06	5.88	6.71	6.02
Accrued Payroll Taxes	.57	.61	.39	.55
Accrued Other Taxes	1.17	1.13	.90	1.48
Other Accrued Expenses	1.34	1.55	2.14	3.46
Other Current Liabilities	.45	.93	1.07	2.17
Total Current Liabilities	18.60	18.47	20.49	25.40
Notes Due Partners/Officers	4.88	7.78	7.74	6.26
Mortgage Payable	5.93	5.16	4.30	3.52
Long Term Debt	7.44	11.09	12.01	15.69
Deferred Income Taxes	.18	.07	(.02)	--
Other Long Term Liabilities	1.32	.83	.65	.69
Total Long Term Liabilities	19.75	24.93	24.68	26.16
Total Liabilities	38.35	43.40	45.17	51.56
Net Worth	61.65	56.60	54.83	48.44
Total Liabilities And Net Worth	100.00%	100.00%	100.00%	100.00%
Financial Performance				
Profit on Investment	12.51%	12.31%	12.42%	12.87%
Active Owner's Return	30.86%	29.89%	28.15%	30.49%
Current Asset Ratio	4.02x	3.97x	3.66x	2.96x
Quick Asset Ratio	1.12x	1.22x	1.04x	.84x
Total Debt to Tangible Net Worth	62.22%	76.68%	82.37%	106.49%
Stock Turn Times	2.27x	2.45x	2.33x	2.58x
Sales to Inventory Ratio	3.51x	3.73x	3.63x	3.96x
Average Inventory per Sq. Ft. Sales Area	$34.48	$28.70	$26.92	$23.27
Net Sales to Accounts Receivable	20.54x	19.27x	20.08x	20.75x
Net Sales to Total Assets	1.82x	1.85x	1.88x	2.09x
Net Sales to Net Worth	2.95x	3.27x	3.44x	4.31
Net Sales to Net Working Capital	3.24x	3.38x	3.46x	4.20x
Other Operating Data				
Incoming Freight — % of Purchases	.88%	.92%	.90%	.91%
Credit Sales — % of Total Gross Sales	34.65%	34.44%	34.10%	33.34%
Consumer Sales — % of Total Gross Sales	88.00%	86.61%	85.33%	87.13%
Selling Area — Square Feet	2,088	3,784	6,666	13,931
Sales Per Square Foot — Selling Area	$119.24	$99.21	$85.46	$87.51
Total Area — Square Feet	3,555	5,846	9,928	19,518
Sales Per Square Foot — Total Area	$70.03	$64.22	$57.38	$62.46
Sales Per Person Employed	$55,454	$58,499	$58,926	$65,344
Sales Per Customer	$7.56	$7.50	$9.65	$10.29

Type of Ownership

Income Statement Data	Proprietorship	Partnership	Corporation
Number of Stores	170	54	577
Net Sales Volume	$250,516	$449,196	$603,349
Current Year's Sales vs. Previous Year*	+3.02%	+5.21%	+7.22%
Net Sales	100.00%	100.00%	100.00%
Cost of Goods Sold	66.50	70.34	64.51
Margin	33.50	29.66	35.49
Payroll and Other Employee Expense			
Salaries — Owners, Officers, Managers	5.22	4.92	5.29
Salaries — Other Employees	9.54	8.47	12.06
Federal and State Payroll Taxes	.83	.88	1.28
Group Insurance	.36	.47	.57
Benefit Plans	.13	.09	.45
Total Payroll and Other Employee Expense	16.08	14.83	19.65
Occupancy Expense			
Heat, Light, Power, Water	1.32	.83	1.11
Repairs to Building	.30	.19	.24
Rent or Ownership in Real Estate**	3.68	2.89	3.66
Total Occupancy Expense	5.30	3.91	5.01
Other Costs of Doing Business			
Advertising	2.41	1.48	2.35
Depreciation (Other than Real Estate)	.82	.64	.67
Insurance (Other than Real Estate or Group)	.89	.82	.86
Taxes (Other than Real Estate or Payroll)	.31	.17	.35
All Other Expenses	5.67	4.33	4.98
Total Other Costs of Doing Business	10.10	7.44	9.21
Total Operating Expense	31.48	26.18	33.87
Net Operating Profit	2.02	3.48	1.62
Other Income	1.25	1.74	1.55
Net Profit (Before Income Taxes)	3.27	5.22	3.17
Financial Performance			
Profit on Investment	9.46%	17.06%	12.30%
Active Owner's Return	22.44%	32.23%	30.34%
Current Asset Ratio	3.86x	3.70x	3.35x
Quick Asset Ratio	.92x	1.25x	.93x
Total Debt to Tangible Net Worth	86.90%	68.76%	92.73%
Stock Turn Times	2.03x	2.92x	2.42x
Sales to Inventory Ratio	3.05x	4.14x	3.74x
Average Inventory per Sq. Ft. Sales Area	$22.34	$26.43	$27.60
Net Sales to Accounts Receivable	27.58x	16.21x	20.70x
Net Sales to Total Assets	1.55x	1.94x	2.01x
Net Sales to Net Worth	2.89x	3.27x	3.88x
Net Sales to Net Working Capital	3.11x	3.74x	3.74x
Other Operating Data			
Incoming Freight — % of Purchases	1.16%	.74%	.88%
Credit Sales — % of Total Gross Sales	31.79%	37.83%	34.00%
Consumer Sales — % of Total Gross Sales	89.39%	89.74%	88.02%
Selling Area — Square Feet	3,685	4,188	6,561
Sales Per Square Foot — Selling Area	$67.98	$107.26	$91.96
Total Area — Square Feet	5,276	6,457	9,846
Sales Per Square Foot — Total Area	$47.48	$69.57	$61.28
Sales Per Person Employed	$55,620	$67,787	$59,577
Sales Per Customer	$6.66	$13.94	$9.19

*As reported to us by Management Report contributors.

**Ownership in Real Estate includes Taxes, Insurance and Depreciation on Land and Buildings and Interest on Mortgages.

Trade Area Size

Income Statement Data	S.M.S.A. Central City	S.M.S.A. Suburban	Cities 10,000 To 50,000	Rural Areas Under 10,000
Number of Stores	94	62	172	456
Net Sales Volume	$628,778	$651,240	$607,385	$427,790
Current Year's Sales vs. Previous Year*	+11.45%	+11.53%	+6.45%	+4.65%
Net Sales	100.00%	100.00%	100.00%	100.00%
Cost of Goods Sold	61.31	62.09	65.43	66.41
Margin	38.69	37.91	34.57	33.59
Payroll and Other Employee Expense				
Salaries — Owners, Officers, Managers	4.66	6.42	4.99	5.39
Salaries — Other Employees	14.46	12.58	11.84	10.45
Federal and State Payroll Taxes	1.42	1.28	1.17	1.15
Group Insurance	.53	.68	.56	.51
Benefit Plans	.76	.42	.46	.26
Total Payroll and Other Employee Expense	21.83	21.38	19.02	17.76
Occupancy Expense				
Heat, Light, Power, Water	1.26	1.04	1.09	1.11
Repairs to Building	.29	.21	.24	.26
Rent or Ownership in Real Estate**	4.79	3.82	3.49	3.37
Total Occupancy Expense	6.34	5.07	4.82	4.74
Other Costs of Doing Business				
Advertising	2.57	2.06	2.36	2.20
Depreciation (Other than Real Estate)	.70	.58	.68	.72
Insurance (Other than Real Estate or Group)	1.01	.68	.80	.88
Taxes (Other than Real Estate or Payroll)	.38	.33	.28	.34
All Other Expenses	4.78	4.35	5.16	5.15
Total Other Costs of Doing Business	9.44	8.00	9.28	9.29
Total Operating Expense	37.61	34.45	33.12	31.79
Net Operating Profit	1.08	3.46	1.45	1.80
Other Income	1.78	1.54	1.69	1.42
Net Profit (Before Income Taxes)	2.86	5.00	3.14	3.22
Financial Performance				
Profit on Investment	13.67%	15.91%	11.87%	11.26%
Active Owner's Return	33.33%	34.39%	28.02%	28.58%
Current Asset Ratio	2.63x	4.79x	3.29x	3.65x
Quick Asset Ratio	.65x	1.42x	1.01x	.99x
Total Debt to Tangible Net Worth	111.70%	57.79%	93.32%	90.90%
Stock Turn Times	2.61x	2.45x	2.51x	2.27x
Sales to Inventory Ratio	4.26x	3.95x	3.83x	3.41x
Average Inventory per Sq. Ft. Sales Area	$29.72	$31.64	$27.65	$24.89
Net Sales to Accounts Receivable	33.73x	22.45x	18.10x	19.32x
Net Sales to Total Assets	2.25x	2.02x	1.96x	1.83x
Net Sales to Net Worth	4.77x	3.19x	3.78x	3.50x
Net Sales to Net Working Capital	4.97x	3.37x	3.72x	3.36x
Other Operating Data				
Incoming Freight — % of Purchases	.63%	.75%	.82%	1.10%
Credit Sales — % of Total Gross Sales	34.76%	30.14%	35.99%	33.32%
Consumer Sales — % of Total Gross Sales	85.91%	90.48%	86.10%	88.95%
Selling Area — Square Feet	6,167	6,702	6,244	5,345
Sales Per Square Foot — Selling Area	$101.96	$97.17	$97.28	$80.04
Total Area — Square Feet	8,489	9,450	9,268	8,304
Sales Per Square Foot — Total Area	$74.07	$68.91	$65.54	$51.52
Sales Per Person Employed	$57,145	$59,345	$60,133	$61,172
Sales Per Customer	$8.23	$8.80	$9.61	$9.26

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Store Location: Part I

Income Statement Data	Downtown	Suburban	Rural
Number of Stores	364	226	56
Net Sales Volume	$473,630	$637,062	429,124
Current Year's Sales vs. Previous Year*	+5.21%	+9.13%	+7.26%
Net Sales	100.00%	100.00%	100.00%
Cost of Goods Sold	65.13	64.00	69.15
Margin	34.87	36.00	30.85
Payroll and Other Employee Expense			
Salaries — Owners, Officers, Managers	5.80	4.69	5.67
Salaries — Other Employees	11.40	12.40	7.89
Federal and State Payroll Taxes	1.20	1.24	.86
Group Insurance	.60	.51	.33
Benefit Plans	.39	.44	.19
Total Payroll and Other Employee Expense	19.39	19.28	14.94
Occupancy Expense			
Heat, Light, Power, Water	1.03	1.18	1.04
Repairs to Building	.26	.24	.32
Rent or Ownership in Real Estate**	3.18	4.10	3.46
Total Occupancy Expense	4.47	5.52	4.82
Other Costs of Doing Business			
Advertising	2.13	2.61	2.16
Depreciation (Other than Real Estate)	.62	.70	.70
Insurance (Other than Real Estate and Group)	.87	.75	1.00
Taxes (Other than Real Estate and Payroll)	.33	.38	.41
All Other Expenses	4.94	4.88	5.37
Total Other Costs of Doing Business	8.89	9.32	9.64
Total Operating Expense	32.75	34.12	29.40
Net Operating Profit	2.12	1.88	1.45
Other Income	1.68	1.62	.72
Net Profit (Before Income Taxes)	3.80	3.50	2.17
Financial Performance			
Profit on Investment	12.00%	14.56%	9.32%
Active Owner's Return	28.45%	31.33%	30.85%
Current Asset Ratio	3.78x	3.45x	2.93x
Quick Asset Ratio	1.17x	.90x	.61x
Total Debt to Tangible Net Worth	71.30%	103.67%	123.56%
Stock Turn Times	2.40x	2.44x	2.28x
Sales to Inventory Ratio	3.69x	3.82x	3.30x
Average Inventory per Sq. Ft. Sales Area	$26.18	$27.78	$23.59
Net Sales to Accounts Receivable	16.93x	25.70x	22.26x
Net Sales to Total Assets	1.84x	2.05x	1.92x
Net Sales to Net Worth	3.15x	4.17x	4.29x
Net Sales to Net Working Capital	3.37x	3.83x	3.96x
Other Operating Data			
Incoming Freight — % of Purchases	.99%	.84%	.54%
Credit Sales — % Total Gross Sales	37.16%	31.00%	30.13%
Consumer Sales — % of Total Gross Sales	86.93%	85.42%	86.00%
Selling Area — Square Feet	5,207	6,902	5,793
Sales Per Square Foot — Selling Area	$90.96	$92.30	$74.08
Total Area — Square Feet	8,258	9,843	8,062
Sales Per Square Foot — Total Area	$57.35	$64.72	$53.23
Sales Per Person Employed	$58,522	$60,693	$67,509
Sales Per Customer	$8.16	$9.46	$13.98

*As reported to us by Management Report contributors.

**Ownership in Real Estate includes Taxes, Insurance and Depreciation on Land and Buildings and Interest on Mortgages.

Store Location: Part II

Income Statement Data	Shopping Center		Free-Standing	
	Neighborhood	Community or Regional	No Stores Adjacent	Stores Nearby
Number of Stores	114	60	105	384
Net Sales Volume	$599,129	$522,773	$629,451	$475,692
Current Year's Sales vs. Previous Year*	+10.58%	+8.28%	+9.80%	+4.57%
Net Sales	100.00%	100.00%	100.00%	100.00%
Cost of Goods Sold	63.67	63.12	67.95	64.57
Margin	36.33	36.88	32.05	35.43
Payroll and Other Employee Expense				
Salaries — Owners, Officers, Managers	5.29	5.06	4.34	5.92
Salaries — Other Employees	12.37	12.41	10.55	11.44
Federal and State Payroll Taxes	1.21	1.30	1.07	1.22
Group Insurance	.55	.36	.44	.61
Benefit Plans	.39	.71	.35	.38
Total Payroll and Other Employee Expense	19.81	19.84	16.75	19.57
Occupancy Expense				
Heat, Light, Power, Water	1.20	1.15	1.03	1.05
Repairs to Building	.31	.21	.27	.23
Rent or Ownership in Real Estate**	4.28	4.19	3.03	3.42
Total Occupancy Expense	5.79	5.55	4.33	4.70
Other Costs of Doing Business				
Advertising	2.55	2.27	2.32	2.13
Depreciation (Other than Real Estate)	.67	.68	.73	.85
Insurance (Other than Real Estate or Group)	.75	.93	.76	.85
Taxes (Other than Real Estate or Payroll)	.36	.43	.32	.34
All Other Expenses	4.90	5.90	4.93	4.73
Total Other Costs of Doing Business	9.23	10.21	9.06	8.70
Total Operating Expense	34.83	35.60	30.14	32.97
Net Operating Profit	1.50	1.28	1.91	2.46
Other Income	1.32	1.40	1.50	1.55
Net Profit (Before Income Taxes)	2.82	2.68	3.41	4.01
Financial Performance				
Profit on Investment	13.22%	12.32%	12.74%	12.48%
Active Owner's Return	34.29%	32.07%	27.41%	29.13%
Current Asset Ratio	3.29x	2.87x	3.49x	3.79x
Quick Asset Ratio	.85x	.80x	.93x	1.16x
Total Debt to Tangible Net Worth	117.70%	137.72%	91.28%	69.21%
Stock Turn Times	2.43x	2.08x	2.57x	2.38x
Sales to Inventory Ratio	3.82x	3.30x	3.78x	3.69x
Average Inventory per Sq. Ft. Sales Area	$25.17	$26.75	$28.27	$26.56
Net Sales to Accounts Receivable	28.58x	15.85x	20.80x	18.30x
Net Sales to Total Assets	2.15x	1.94x	1.95x	1.84x
Net Sales to Net Worth	4.69x	4.61x	3.73x	3.11x
Net Sales to Net Working Capital	3.96x	3.60x	3.76x	3.38x
Other Operating Data				
Incoming Freight — % of Purchases	1.05%	.89%	.71%	.91%
Credit Sales — % of Total Gross Sales	28.91%	33.06%	32.58%	36.16%
Consumer Sales — % of Total Gross Sales	87.85%	87.15%	82.25%	86.94%
Selling Area — Square Feet	10,846	6,561	6,353	5,156
Sales Per Square Foot — Selling Area	$87.52	$79.68	$99.08	$92.26
Total Area — Square Feet	9,213	9,209	9,861	8,111
Sales Per Square Foot — Total Area	$65.03	$56.77	$63.83	$58.65
Sales Per Person Employed	$57,579	$55,849	$68,939	$59,828
Sales Per Customer	$8.11	$7.88	$12.90	$8.64

*As reported to us by Management Report contributors.

**Ownership in Real Estate includes Taxes, Insurance and Depreciation on Land and Buildings and Interest on Mortgages.

Geographical Region

1. **New England**
   Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
2. **Middle Atlantic**
   New Jersey, New York, Pennsylvania
3. **South Atlantic**
   Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia
4. **East North Central**
   Illinois, Indiana, Michigan, Ohio, Wisconsin
5. **East South Central**
   Alabama, Kentucky, Mississippi, Tennessee
6. **West North Central**
   Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota
7. **West South Central**
   Arkansas, Louisiana, Oklahoma, Texas
8. **Mountain**
   Arizona, Colorado, Idaho, Montana, New Mexico, Nevada, Utah, Wyoming,
9. **Pacific**
   California, Oregon, Washington

*As reported to us by Management Report contributors

**Ownership in Real Estate includes Taxes, Insurance and Depreciation on Land and Buildings

Income Statement Data	1 New England
Number of Stores	101
Net Sales Volume	$445,846
Current Year's Sales vs. Previous Year*	+6.57%
Net Sales	100.00%
Cost of Goods Sold	65.28
Margin	34.72
Payroll and Other Employee Expense	
Salaries — Owners, Officers, Managers	5.12
Salaries — Other Employees	12.17
Federal and State Payroll Taxes	1.38
Group Insurance	.72
Benefit Plans	.25
Total Payroll and Other Employee Expense	19.64
Occupancy Expense	
Heat, Light, Power, Water	1.18
Repairs to Building	.21
Rent or Ownership in Real Estate**	3.62
Total Occupancy Expense	5.01
Other Costs of Doing Business	
Advertising	1.67
Depreciation (Other than Real Estate)	.59
Insurance (Other than Real Estate and Group)	.92
Taxes (Other than Real Estate and Payroll)	.17
All Other Expenses	5.13
Total Other Costs of Doing Business	8.48
Total Operating Expense	33.13
Net Operating Profit	1.59
Other Income	1.47
Net Profit (Before Income Taxes)	3.06

Financial Performance

Profit on Investment	12.20%
Active Owner's Return	31.10%
Current Asset Ratio	3.23x
Quick Asset Ratio	.98x
Total Debt to Tangible Net Worth	84.63%
Stock Turn Times	2.62x
Sales to Inventory Ratio	4.01x
Average Inventory per Sq. Ft. Sales Area	$30.62
Net Sales to Accounts Receivable	18.61x
Net Sales to Total Assets	2.16x
Net Sales to Net Worth	3.98x
Net Sales to Net Working Capital	3.93x

Other Operating Data

Incoming Freight — % of Purchases	.69%
Credit Sales — % Total Gross Sales	39.21%
Consumer Sales — % of Total Gross Sales	95.83%
Selling Area — Square Feet	3,984
Sales Per Square Foot — Selling Area	$111.91
Total Area — Square Feet	7,524
Sales Per Square Foot — Total Area	$59.26
Sales Per Person Employed	$58,002
Sales Per Customer	$8.90

Geographical Region

2 Middle Atlantic	3 South Atlantic	4 East North Central	5 East South Central	6 West North Central	7 West South Central	8 Mountain	9 Pacific
63	62	320	24	162	25	9	55
$441,018	$524,619	$570,207	$570,355	$423,488	$868,875	$724,592	$445,404
+5.61%	+10.39	+5.60%	+2.23%	+4.93%	+25.05%	+3.98%	+1.57%
100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
63.50	63.58	64.49	69.18	66.92	65.08	70.43	62.62
36.50	36.42	35.51	30.82	33.08	34.92	29.57	37.38
7.19	6.86	4.55	5.04	5.49	5.29	2.47	6.81
9.88	11.22	12.40	10.04	10.38	11.00	12.95	11.95
1.31	1.12	1.24	1.02	1.11	1.01	1.09	1.38
.67	.47	.55	.35	.52	.59	.23	.37
.64	.40	.42	.10	.38	.40	--	.47
19.69	20.07	19.16	16.55	17.88	18.29	16.74	20.98
1.24	1.04	1.23	.70	1.07	.91	.78	.78
.35	.24	.23	.44	.19	.32	.41	.29
3.43	3.60	3.95	2.00	3.17	3.08	2.83	4.21
5.02	4.88	5.41	3.14	4.43	4.31	4.02	5.28
1.73	1.62	2.78	1.32	2.51	1.42	1.95	2.26
.58	.64	.77	.55	.68	.43	.35	.79
.95	.57	.87	.72	1.00	.42	.69	1.04
.47	.49	.34	.27	.23	.38	.32	.46
4.21	5.20	5.11	4.33	5.52	4.08	4.34	4.93
7.94	8.52	9.87	7.19	9.94	6.73	7.65	9.48
32.65	33.47	34.44	26.88	32.25	29.33	28.41	35.74
3.85	2.95	1.07	3.94	.83	5.59	1.16	1.64
1.55	1.31	1.55	1.44	1.47	2.36	1.18	1.41
5.40	4.26	2.62	5.38	2.30	7.95	2.34	3.05
15.80%	14.17%	10.81%	12.93%	8.78%	23.64%	11.64%	10.74%
34.38%	31.90%	28.74%	23.21%	25.43%	36.45%	18.05%	30.88%
3.91x	3.15x	3.28x	4.20x	2.96x	6.77x	4.11x	4.81x
1.23x	.91x	.81x	1.60x	.75x	2.60x	1.31x	1.29x
57.50%	81.86%	112.76%	45.57%	101.33%	42.54%	119.42%	67.38%
2.56x	2.44x	2.30x	2.47x	2.29x	2.85x	2.89x	2.25x
4.03x	3.84x	3.56x	3.57x	3.42x	4.37x	4.11x	3.60x
$24.26	$26.84	$26.60	$33.86	$23.47	$32.73	$24.37	$25.94
18.39x	16.27x	26.34x	12.75x	18.56x	17.32x	26.48x	21.72x
1.86x	1.83x	1.94x	1.65x	1.90x	2.09x	2.27x	2.10x
2.93x	3.32x	4.12x	2.40x	3.82x	2.97x	4.98x	3.52x
3.63x	3.72x	3.76x	2.81x	3.85x	2.98x	3.67x	3.33x
.59%	.38%	1.15%	.37%	1.12%	.29%	.79%	.80%
34.90%	38.94%	30.62%	34.05%	37.18%	33.35%	35.02%	34.64%
83.87%	79.97%	87.76%	83.92%	93.74%	80.48%	73.11%	88.78%
4,575	6,370	6,605	5,504	4,983	7,203	7,233	5,390
$96.40	$82.36	$86.33	$103.63	$84.99	$120.63	$100.18	$82.64
7,064	9,858	9,520	9,915	6,731	12,063	10,475	7,231
$62.43	$53.22	$59.90	$57.52	$62.92	$72.03	$69.17	$61.60
$59,031	$61,486	$60,192	$71,127	$53,134	$64,587	$60,383	$60,268
$8.55	$8.90	$9.40	$8.02	$7.03	$11.75	$14.42	$8.13

Number of Stores

Income Statement Data	Single Store Business	Multiple Store Business
Number of Stores	719	102
Net Sales Volume	$515,902	$508,901
Current Year's Sales vs. Previous Year*	+ 6.36%	+ 8.59%
Net Sales	100.00%	100.00%
Cost of Goods Sold	65.36	62.43
Margin	34.64	37.57
Payroll and Other Employee Expense		
Salaries — Owners, Officers, Managers	5.32	4.84
Salaries — Other Employees	11.38	13.48
Federal and State Payroll Taxes	1.20	1.36
Group Insurance	.54	.54
Benefit Plans	.39	.46
Total Payroll and Other Employee Expense	18.83	20.68
Occupancy Expense		
Heat, Light, Power, Water	1.09	1.30
Repairs to Building	.24	.27
Rent or Ownership in Real Estate**	3.50	4.40
Total Occupancy Expense	4.83	5.97
Other Costs of Doing Business		
Advertising	2.26	2.57
Depreciation (Other than Real Estate)	.71	.55
Insurance (Other than Real Estate and Group)	.86	.82
Taxes (Other than Real Estate and Payroll)	.32	.40
All Other Expenses	5.02	5.01
Total Other Costs of Doing Business	9.17	9.35
Total Operating Expense	32.83	36.00
Net Operating Profit	1.81	1.57
Other Income	1.53	1.48
Net Profit (Before Income Taxes)	3.34	3.05
Financial Performance		
Profit on Investment	12.22%	12.55%
Active Owner's Return	30.11%	23.77%
Current Asset Ratio	3.56x	2.70x
Quick Asset Ratio	1.01x	.60x
Total Debt to Tangible Net Worth	89.27%	99.25%
Stock Turn Times	2.38x	2.45x
Sales to Inventory Ratio	3.64x	3.93x
Average Inventory per Sq. Ft. Sales Area	$24.99	$81.37
Net Sales to Accounts Receivable	20.12x	28.43x
Net Sales to Total Assets	1.93x	2.05x
Net Sales to Net Worth	3.66x	4.09x
Net Sales to Net Working Capital	3.57x	4.54x
Other Operating Data		
Incoming Freight — % of Purchases	.94%	.60%
Credit Sales — % Total Gross Sales	34.21%	32.80%
Consumer Sales — % of Total Gross Sales	88.64%	88.50%
Selling Area — Square Feet	5,713	6,147
Sales Per Square Foot — Selling Area	$90.30	$82.68
Total Area — Square Feet	8,578	9,111
Sales Per Square Foot — Total Area	$60.14	$56.07
Sales Per Person Employed	$59,929	$57,893
Sales Per Customer	$9.22	$7.56

*As reported to us by Management Report contributors.
**Ownership in Real Estate includes Taxes, Insurance and Depreciation on Land and Buildings and Interest on Mortgages.

Strategic Profit Model

The Strategic Profit Model can be an excellent management tool for hard-lines retailers. The Model combines the principal elements of a firm's operating statment and balance sheet into a single profit planning equation, evaluating operating performance on the most important criteria — Return on Net Worth.

The Strategic Profit Model clearly identifies, through the use of financial ratio analysis, the three major operational areas that determine the rate of return on net worth: profit margin, asset turnover and leverage.

Several elements that can be controlled by management to improve the level of operational performance are:

Profit Margin

Sales — Increase sales through better displays and advertising, more promotions, addition of new lines, etc.

Cost of Goods Sold — Improve Gross Margin through variable pricing, efficient buying, etc.

Expenses — Trimming expenses is difficult in view of today's high inflation, labor costs, occupancy expense, etc., however, carefully review each item of expense for areas of cost savings.

Other Income — Take advantage of cash discounts, earnings from revolving or installment credit programs and other investments such as stock ownership.

Asset Turnover

Inventory — Decrease inventory level through a careful review of the levels of all items, trim slow moving items, eliminate obsolete items.

Accounts Receivable — Review status of accounts; if excessively high without the use of a finance charge, customers are operating on the firm's money.

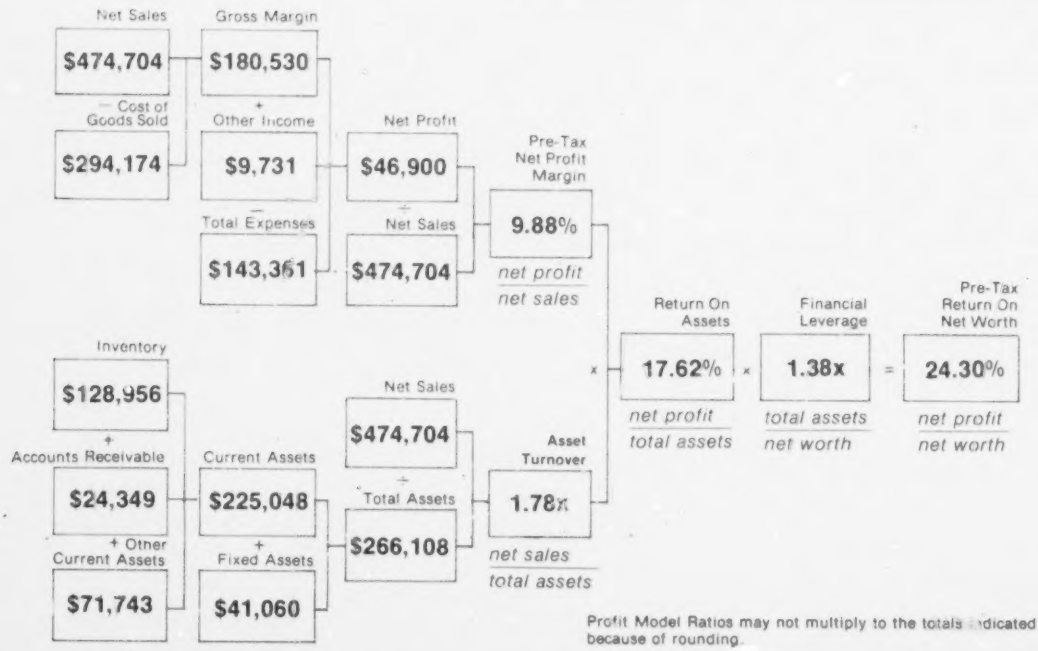
Fixed Assets — Divide Net Sales by Fixed Assets; a substantially lower than industry average ratio indicates excessive investments resulting in idle capacity.

Leverage

The amount of borrowed funds has a number of major implications 1) creditors look to owner supplied funds to provide a margin of safety; 2) by raising funds through debt, owners gain the benefit of maintaining control of the firm with a limited investment and 3) if the firm earns more on borrowed funds than it pays in interest, return to owners is magnified.

Presented below is the Strategic Profit Model for the High Profit Stores category. Retailers interested in improving their performance should carefully review this model, as it represents the level of excellence achieved by industry leaders.

High-Profit Stores



Profit Model Ratios may not multiply to the totals indicated because of rounding.

Departmental Sales

The Departmental Sales section of the Financial Report offers a variety of information for thirteen major departments carried in the hardlines industry's retail outlets.

Departmental Contributions
Shown for each department are the percent of firms handling, the share of net sales, sales floor space, inventory, cost of goods sold and dollar productivity per square foot of sales area. These data are for **Handling Firms Only.** All stores participating in the survey that do not carry a certain department were not included in the computation of the average data for that department.

As an example to help understand the meaning of the **Handling Firms Only** data, suppose the Lawn and Garden Department in the Financial Report shows 90% of the reporting stores have a Lawn and Garden Department. The data shown for the Lawn and Garden Department are only for the 90% of stores who carry Lawn and Garden Equipment. Thus, **Handling Firms Only** data enable an operator to compare a specific department's data with the average of other operators who also carry that department.

The Financial Report also presents an **Average Store Profile.** This profile shows data for a hardware store handling all departments and allows a comparison of the relationships among departments within a single operation.

But what of a hardware store that does not carry all the major departments. How can the relationships of only carried departments be compared to a total store industry average? The necessary data are contained in the Report, only a simple computation is required. First, for each department carried, add the industry average percents of Net Sales. The sum of these percentages is then divided into each individual departmental percent. The resulting percentages are the **Average Store Profile** for a hardware store carrying only these departments.

As an example, a hardlines retailer carries only four departments — Hardware, Hand and Power Tools, Paint and Sundries and Automotive Supplies. Assume The Financial Report indicates percent of Net Sales for handling firms for each department to be:

Hardware	15.0%
Hand and Power Tools	10.0%
Paint and Sundries	20.0%
Automotive Supplies	5.0%

The total of these percents equals 50.0%. Now divide the total (50.0%) into each of the individual department's percent:

Hardware	15.0 / 50.0	= 30.0%
Hand and Power Tools	10.0 / 50.0	= 20.0%
Paint and Sundries	20.0 / 50.0	= 40.0%
Automotive Supplies	5.0 / 50.0	= 10.0%

The resulting percentages' total should equal 100.0% and are the **Average Store Profile** for an outlet handling only Hardware, Hand and Power Tools, Paint and Sundries, and Automotive Supplies. This same procedure can be followed to determine the Average Store Profile for the percent of sales floor space, inventory and cost of goods sold.

Productivity
There are a number of ways in which to evaluate departmental performance including margin, turnover, sales productivity and margin contribution. The table presented on the following page examines these departmental evaluation criteria.

The first evaluative measure is departmental gross margin.

On the basis of margin alone, the following departments would be considered high performing departments: electrical, plumbing, heating & cooling and hardware. Margin evaluations alone would indicate major appliances & home entertainment and lumber to be below average performance.

An additional measure is the sales to inventory ratio (net sales divided by average inventory at cost). On the basis of this ratio alone, paint & paint sundries and major appliances & home entertainment exceed all the other department averages.

An excellent way for hardware store operators to evaluate departmental performance is through the concept of gross margin return on inventory investment or GMROI. GMROI considers both margin and turnover. GMROI is computed by taking the margin percentage times the sales to inventory ratio. Lawn and Garden's GMROI, for example, is 1.36 which means $1.36 in margin is returned for each $1.00 invested in lawn and garden inventory. Resultant GMROI figures give hardware store operators ways to measure departmental performance across diverse merchandise lines. Traditional high margin, low turnover departments may be compared with traditional low margin, high turnover departments.

Individual hardware store operators may utilize other evaluations such as profit on sales or return on investment by department. Nearly all departmental evaluation methods rely on some type of inventory control system enabling operators to measure sales and purchases at least at the departmental level.

Departmental Contribution

Department	Handling Firms Only: % Handling	% of Net Sales	% of Sales Floor	% of Inventory	% of Cost of Goods Sold	$ Sales Per Sq. Ft.	Average Store Profile: % of Net Sales	% of Sales Floor	% of Inventory	% of Cost of Goods Sold
Hardware	100.0	22.6	18.8	21.7	21.8	93.72	22.2	18.1	21.6	20.9
Hand & Power Tools	100.0	8.2	9.0	10.5	9.7	78.32	6.8	8.3	8.2	7.2
Plumbing, Heating and Cooling	100.0	12.3	11.3	10.2	11.4	91.70	11.5	10.6	10.2	10.7
Electrical Supplies	100.0	8.8	7.8	8.2	9.4	85.47	7.6	7.4	7.3	7.2
Paint & Paint Sundries	93.8	11.9	11.2	11.8	11.0	92.69	11.1	10.9	9.3	10.6
Lumber	13.5	10.8	8.4	2.6	6.1	82.40	1.3	.6	1.3	1.4
Building Materials	28.6	8.1	4.6	3.0	8.8	81.90	2.1	.9	2.5	2.2
Lawn & Garden	85.5	12.2	12.0	10.2	11.3	88.08	10.2	11.6	10.0	10.6
Housewares	88.2	12.8	17.5	16.0	14.5	60.97	11.2	16.0	13.7	12.1
Automotive Supplies	58.2	4.0	4.2	4.4	4.8	81.65	2.2	2.9	2.2	2.3
Major Appliances & Home Entertainment	27.3	10.8	10.5	10.7	10.3	92.76	2.8	2.2	2.4	3.3
Sporting Goods & Outdoor Equipment	67.8	7.6	7.7	9.5	8.9	73.91	5.0	5.4	5.8	5.5
Other Departments	64.1	9.8	10.8	10.1	10.1	65.60	6.0	5.1	5.5	6.0
							100.0	100.0	100.0	100.0

Productivity

Department	Typical Store Profile: Gross Margin %	Sales To Inventory Ratio	GMROI
Hardware	42.0	3.6	1.51
Hand & Power Tools	36.1	2.9	1.05
Plumbing, Heating & Cooling	42.1	3.9	1.64
Electrical Supplies	42.5	3.8	1.62
Paint & Paint Sundries	41.1	4.4	1.81
Lumber	32.0	3.6	1.15
Building Materials	37.7	2.9	1.09
Lawn & Garden	35.8	3.8	1.36
Housewares	35.8	3.0	1.07
Automotive Supplies	35.6	3.6	1.28
Major Appliances & Home Entertainment	27.8	4.3	1.20
Sporting Goods & Outdoor Equipment	32.5	3.0	.98
Other Departments	39.1	3.9	1.52

New Store Data

To determine the feasibility of a new hardware store, four distinct planning phases are required:

—Preliminary Financial Analysis
—Market Analysis
—Formal Financial Analysis
—Development of Store Image

Phase I

As the ultimate criterion of feasibility for a proposed hardware operation will be profitability, the planning process should begin with a preliminary financial analysis.

The investment required for a new retail hardware store can range between $25 to $60 per square foot, depending on locality, size, occupancy position and personal preferences.

Based on the desired size of the operation, utilize the industry operating averages presented in NRHA's Management Report to estimate sales volumes, gross margins, salaries and other cost of doing business to project Net Profits and Return on Investment for the proposed hardware operation. An important fact to remember is there is a direct correlation between the square feet of sales area, average dollar inventory and the attainable sales volumes.

If the preliminary financial analysis meets predetermined individual requirements in attainable salary levels, Net Profit and Return on Investment, the second phase of planning may be initiated.

Phase II

Site Location

The market area to be served by the proposed hardware operation will be primarily determined by the selected site location. Nine major aspects of varying importance determine the worth of a given retail hardware store location. These aspects are listed below.

Shopping Pull — Businesses in the area which would help draw consumers to the area.

Parking Facilities — Adequate parking requires two to two and a half square feet of parking area for every square foot of selling area.

Walk-In Traffic
Traffic Count and Patterns
Accessibility
Visibility
Congestion
Shopping Ease — The ability for the consumer to get out of the store from the point of check-out to his or her auto with a large item.

Ingress and Egress — The ease with which customers can drive to or from the street to the parking area.

To select the best location, each prospective site should be assessed on the nine aspects to determine overall worth as a retail location. A subjective analysis of all aspects for each potential site available combined with an analysis of the cost for property and improvements will provide the basis for selecting the prime site location(s) for further analysis.

Primary Trade Area

After the selections of site(s), for the purpose of analysis it is necessary to bring the market area to be served to manageable proportions. Therefore a Primary Trade Area for the selected site location must be defined. The Primary Trade Area represents the geographical boundaries from which the majority of do-it-yourself consumer business for the proposed operation will be derived. These geographical boundries of the Primary Trade Area are affected by many variables. The most influencing variables are the proposed operation's size and merchandise mix, number of consuming residents required to support the operation, driving time to site location, the proximity of retail activity concentrations and natural or manmade barriers.

Size — The ability to draw consumers from a distance to a retail outlet is directly related to the size of the display area and the number, depth and breadth of departmental lines carried.

Number of Consumers — A 5,000 square foot store requires 15,000 to 20,000 consuming residents; a 10,000 square foot store requires 30,000 to 35,000 consuming residents.

Driving Time — Typically a 5,000 square foot store can draw consumers within a 5 to 10 minutes driving time, a 10,000 square foot store drawing within 10 to 15 minutes driving time.

Other Retail Stores — Proximity to highly active retail areas helps to share the burden of drawing consumers to the area for shopping purposes.

Barriers — Barriers affecting accessibility to selected site location can dramatically alter the boundries of the Primary Trade Area.

The feasibility of a new hardware store within a given Primary Trade Area is dependent on two major factors, the demographic characteristics of the consumers and the number and strength of the competitors.

Consumer Analysis

From past NRHA research it has been learned that demographic variables relating to population growth rate, income levels and incidence of owner-occupied housing are the most critical variables in predicting a consumers' propensity to spend on hardlines.

Population Growth Rate — A viable environment for a new hardware store requires that the Primary Trade Area experience a minimum of .5 to 1.0 percent annual increase in population with the preferred rate being 2.0 percent or more.

Income Levels — Consumers with middle to upper-middle income have the greatest propensity to purchase hardlines, lumber and building materials.

Type of Housing — Consumers who own their own homes will spend as much as 4 to 5 times more per year for hardlines, lumber and building materials than renters, mobile home or condominium owners.

Competitive Analysis

Although within a given Primary Trade Area, consumer demographic variables may indicate a healthy environment for a new retail hardware store, feasibility for the proposed operation cannot be determined without an analysis of the competition.

Depending on merchandise mix, primary hardlines sales represent approximately 65 to 85 percent of the total sales volume for an average hardware store. Primary hardlines include: hardware, tools, electrical, plumbing, lawn and garden, paint and paint sundries. As the primary hardlines represent the substantial majority of sales for a hardware store, an analysis to determine the feasibility of a new store should focus on these lines.

Retail stores which carry competitive lines and would be likely to be shopped by Primary Trade Area residents should be visited and assessed. These retail outlets include all hardware stores, home centers, lumber/building material outlets, mass merchandisers, discount stores, variety and drug stores and specialty stores.

The retail competitors should be delineated by location and preferably spotted on a map. All competitive departmental lines should be assessed on a rating scale. A scale of 1 to 5 has been utilized with a rating of 1 indicating that the retailer offers a minimal selection of items and a 5 indicating an excellent departmental offering in both depth and breadth of line.

In this illustration the lawn/garden and paint departments are offered in depth by several strong competitors, indicating a possible market saturation in these lines. Plumbing has a fewer number of competitors carrying, and no competitor offers a strong plumbing departmental presentation. The hardware, tools and electrical departments have many competitors, but only a few strong competitors.

To be a full line hardware store, the merchandise mix must include hardware, tools, plumbing, electrical, lawn/garden, paint and paint sundries. However, due to the competitive structure of the Primary Trade Area and surrounding Market Area, strategic market thrust can be obtained by offering above average selections in departmental lines that are in poor supply.

In the illustration, based on the competitive situation and desired store image, the proposed operation should plan the following merchandise mix: Hardware — average to above average; Hand Tools — average; Electrical — average to above average; Plumbing — above average; Lawn/Garden — below average-heavy seasonal promotion only; Paint — average to below average; Paint Sundries — average to below average; Auto Supplies — average to above average.

Illustration

	Hdwe.	Tools	Elec.	Plbg.	Lawn/ Gdn.	Pnt.	Sund- ries	Auto Splys.
Site Area								
Variety Store	1	1	2	1	3	2	1	2
Drug Store			1		1			
Downtown								
Home Center	5	4	5	4	4	5	5	3
Paint Store						5	2	
Auto Supplies		1	1					5
East								
Hardware Store	4	3	4	2	5	3	3	1
K-Mart	4	5	3	3	5	5	4	4
Lumber Outlet	2	1	2	2	1	3	3	
South								
Sears	4	5	4	4	5	5	4	5
Penney	3	4	4	3	4	4	3	4
Sherwin Williams					5	5		
Super Drugs	2	1	1	2	3	2	1	2
Total	25	25	27	21	36	39	26	26
# Of Competitors	8	9	10	8	10	10	9	8

Phase III

If the analysis indicates a positive environment in both the consumer and competitive characteristics of the Primary Trade Area, a formal financial analysis should then be developed. Unlike the preliminary analysis, this analysis should include the actual cost of land, building fixtures and equipment to determine the total investment required.

The analysis should also include a pro-forma income statement to estimate the profits (losses) for the first three years of operation. Wherever possible actual operating expenses should be utilized — rent, taxes, utilities, etc. For those expense items that cannot be determined, NRHA's The Management Report will provide guidelines for estimation. Dependent on the projected profit (losses), total capital requirements including working capital will be determined.

One very important factor to remember is that a typical new store will take three years to reach maximum productivity and efficiency or what is termed "store maturity". Therefore do not be overly optimistic on setting performance goals. Based on 1981 dollars, the average new retail hardware store will achieve sales volumes of only $60 to $70 per square foot in the first year of operation with a second year productivity of $70 to $80 per square foot.

Phase IV

Through a combined analysis of all planning phases, the consumer store image is developed.

Owner's Economic Constraints
Customer Identification
Posture of Major Competitors
will determine
Size of Facility
Merchandise Mix
Service Level
Price Statement
will determine
Store Layout, Design and Decor
which relays
Consumer Store Image

Affiliated Associations

California Retail Hardware Association
William R. Maze
122 Ninth St.
San Francisco, CA 94103
(415) 552-0536

Canadian Retail Hardware Association
Thomas M. Ross
6800 Campobello Road
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The Hardware Association of the Carolinas
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Charlotte, NC 28204
(704) 332-3141

Illinois Retail Hardware Association
John C. Friel
215 West Prospect Ave.
Mt. Prospect, IL 60056
(312) 392-8700

Indiana-Kentucky Hardware Association, Inc.
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Intermountain Association
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Iowa Retail Hardware Association
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Nashville, TN 37205
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Minnesota-Dakotas Retail Hardware Association
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Montana Hardware and Implement Association
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Helena, MT 59601
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Mountain States Hardware and Implement Association
Max L. Sauder
1380 Carr St.
Lakewood, CO 80215
(303) 233-2101

New England Hardware Dealers Association
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Lakeside Office Park, Door #5
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New York State Retail Hardware Association
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Ohio Hardware Association
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Southern Association
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Southwest Hardware and Implement Association
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Hardware Association of the Virginias
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Western Retail Implement and Hardware Association
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Wisconsin Retail Hardware Association
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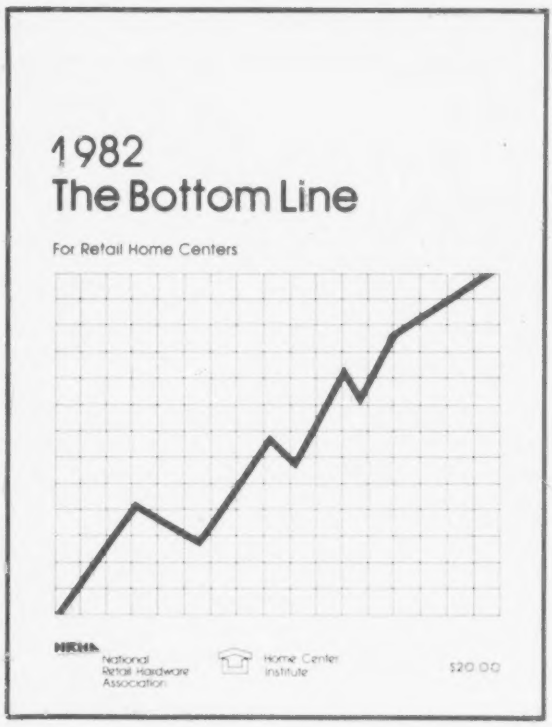
1982
The Bottom Line

For Retail Home Centers

NRHA National Retail Hardware Association

Home Center Institute

$20.00



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National Retail Hardware Association/Home Center Institute

Introduction

Bottom Line

The 1982 Bottom Line presents financial operating data for the home center industry. A home center, as defined by NRHA's Home Center Institute, is a retail outlet which carries the basic hardlines of hardware, tools, plumbing and heating equipment and electrical supplies as well as lumber and building materials. Home Center operations are geared to generate sales in excess of $1 million at maturity. The Bottom Line is designed to fulfill several objectives; to assess the financial performance of the home center industry in 1981; to provide comparative financial data so that retailers can measure their performance against other industry members; to provide a frame of reference for profit planning enabling home center retailers to continually improve performance levels. Additionally the Report provides an excellent means for manufacturers, wholesalers and other interested parties to gain a better understanding of the industry.

Four Major Sections

The Bottom Line Report is divided into four major sections, Average Operating Results, Strategic Profit Model, Departmental Sales, and New Store Data. All results are presented as averages, computed by adding all data for a given item and then dividing by the total number of entries.

Average Operating Results includes data on sales, operating expenses, profits and financial performance. Income statement items are presented as a percentage of net sales and balance sheet items as a percentage of total assets.

The **Strategic Profit Model** combines the principal elements of a firm's operating statement and balance sheet into a single profit planning equation, evaluating operating performance on return on net worth.

In **Departmental Sales,** information is presented on the percent of stores handling major departments found in retail home center stores. The percent of net sales, sales floor, inventory and cost of goods sold are outlined both for handling firms only and for an average store profile. Departmental productivity is compared by calculating the gross margin return on inventory investment for each department.

In **New Store Data,** information on the required planning phases for new store development is presented.

Type of Store

Many factors influence a home center's cost of doing business. Therefore, Report data are shown in different ways in order that individual operators may make meaningful comparisons. Information contained in Average Operating Results is presented for the following store types:

—High and Low Profit
—Sales Volume Size
—Sales Floor Size
—Type of Origin
—Trade Area Size
—Store Location: Part I
—Store Location: Part II
—Number of Stores

Methodology

The Bottom Line is made possible only through the cooperation of the retail home center men and women who provided us with detailed information on their operation. Confidential mail questionnaires were sent to home center operators the end of February. One hundred sixty-one usable returns were received by June 18, 1982 in time for inclusion in this year's report.

All dealer survey forms were edited for completeness by NRHA's Research Services Department Staff. Forms were coded for computer processing and **all individual firm identification removed.** The data was keypunched by a service bureau and then processed by our own data processing department.

As thanks for their contributive efforts, each home center operator who submitted detailed financial information was provided a personalized computer analysis. This customized analysis compared each contributor's results with averages of all other stores in the same sales volume, sales floor, geographical area, and store location categories, as well as with the averages for the entire sample.

One Of A Series

The National Retail Hardware Association publishes detailed Financial Operating Reports for three types of hardlines retailers. Studies which are available in addition to the The Bottom Line are the Management Report for retail hardware stores and the Lumber/Building Materials Financial Report for consumer oriented outlets. Each segment of the concentrated hardgoods market is provided with its own cost-of-doing business comparison manual.

For Assistance

Assistance and aid in interpreting the 1982 Bottom Line Report may be obtained from your regional Hardware Association.

Highlights

The average sales per home center was down somewhat from $2,024,120 in 1980 to $2,001,228 in 1981. This slight slippage was followed across the board by corresponding decreases in gross margin and net profit before taxes. There does not seem to be any one major problem area, just an accumulation of slight increases in most areas. Cost of goods sold increased as did occupancy and other costs of doing business; payroll and other employee expenses was the only area which showed a decline. One thing we should point out is that the sales increase over 1980 figures presented below are *as reported to us* by the dealers — they are *not* the increase (decrease) over the figures presented in last year's book. The number of dealers participating in the survey dropped somewhat this year, and it is felt that those persons who did not participate did so because of poor operating results. Hence the reason for the unexpectedly high figures.

Type of Home Center	Net Sales $	Sales Increase Over 1980* %	Margin %	Net Profit On Sales %	Net Profit On Investment %	Stock Turns x
All Home Centers	2,001,228	+3.41	28.76	2.46	12.32	4.32
Low Profit	1,767,200	+3.56	26.84	(1.17)	(9.28)	4.24
High Profit	2,023,529	+3.04	30.60	6.37	25.98	3.80
Sales Volume Size						
Under $1,000,000	791,774	+.74	34.54	1.41	5.62	2.39
$1,000,000 to $299,999	1,978,244	+3.95	28.61	2.10	10.53	4.55
$3,000,000 or more	4,597,876	+2.59	27.26	4.05	21.92	4.73
Sales Floor Size						
Under 10,000 Sq. Ft.	1,874,154	-2.22	27.61	1.71	7.84	5.40
10,000 to 19,999 Sq. Ft.	1,838,978	+6.78	29.66	2.62	13.98	3.87
20,000 Sq. Ft. or more	2,836,530	+7.33	29.02	3.44	17.63	3.89
Type of Origin						
Originally Hardware	1,486,688	+6.72	31.22	2.67	12.77	3.09
Originally Lumber/Building Material	2,331,548	+2.10	27.40	2.13	10.31	5.06
Organized as Home Center	2,095,947	+5.39	31.63	4.16	32.85	4.09
Trade Area Size						
S.M.S.A.	2,078,559	+2.28	28.65	1.83	9.52	4.55
Cities 10,000 to 50,000	1,862,094	+7.45	29.84	3.16	13.05	3.75
Rural Areas under 10,000	1,997,972	+2.39	28.16	2.80	14.93	4.45
Store Location: Part I						
Downtown	1,758,687	+9.27	30.31	3.05	10.22	3.50
Suburban	2,131,311	+2.27	28.39	2.43	13.02	4.55
Rural	1,697,342	+6.64	28.41	2.02	14.00	4.13
Store Location: Part II						
Shopping Centers—Neighborhood	1,870,994	+12.03	27.81	2.11	19.09	3.95
Shopping Centers—Community or Regional	1,406,243	+21.44	33.35	1.92	14.81	3.56
Free-Standing—No Stores Adjacent	1,890,421	-.40	29.00	2.39	10.54	4.72
Free-Standing—Stores Nearby	2,382,357	+4.07	28.19	2.78	13.96	4.23

*As reported to us by contributing dealers

Monthly Sales

Shown below are the industry average percent of sales by month. As usual, the summer and fall months lead in the percent of sales breakdown, due in part to the many projects Do-It-Yourself consumers engage in during the warmer months. Sales by month are somewhat more erratic than usual, probably due to a lack of confidence in the economy on the part of the consumer.

	%
January	6.1
February	5.6
March	7.2
April	8.7
May	9.7
June	9.6
July	9.3
August	9.0
September	8.8
October	9.3
November	8.1
December	8.6

Average Operating Results

Income Statement Data

The Income Statement presents in a single format revenue derived from the sale of merchandise and expenses incurred to produce these sales. All Financial Report Income Statement data are presented as a percent of Net Sales, computed by dividing each item by the Net Sales.

Net Sales Volume — The dollar amount of cash sales plus credit sales less total deductions.

Total Deductions — Goods returned, discounts allowed, sales taxes and other taxes paid to secure licenses.

Cost of Goods Sold — Inventory First of the Year plus Purchases plus Freight In plus Shop Labor (Non-Employee) minus Purchase Rebates minus Inventory End of the Year equals Cost of Goods Sold.

Margin — The difference between Net Sales and the Cost of Goods Sold.

Salaries — Owners, Officers, Managers — The compensation including bonuses paid to owners, officers and store managers who work in the business.

Salaries — Other Employees — The compensation, wages and bonuses, paid to all other employees.

Federal and State Payroll Taxes — Federal and State Withholding, Unemployment Compensation and FICA Taxes.

Group Insurance — All premiums paid to insure employees for health and accident protection.

Benefit Plans — The employers' share of cost for employee welfare/benefit plans — life insurance, retirement, education, etc.

Heat, Light, Power and Water — All utility expenses incurred in the operation of the business.

Repairs to Building — All charges for incidental repairs which keep the building in ordinarily efficient operating condition.

Leasing Expenses (Non-Occupancy) — All costs involved in leasing furniture, fixtures, machinery and office equipment, delivery equipment, etc.

Rent or Ownership in Real Estate — Rent is the amount paid for properties used in the business. Ownership includes current year taxes, insurance, depreciation and interest on mortgages on land and buildings used in the business.

Office Supplies and Postage — The cost of all materials used for the firm's accounting records.

Advertising — Newspapers, circulars, calendars, radio and television spots, dealer's share of cooperative advertising and materials used in sales events.

Donations — All gifts given from the business operation to charity.

Telephone and Telegraph — For expenses incurred in the operation of the business.

Bad Debts — Uncollectable debts.

Delivery (Other than Wages) — All expenses incurred in the operation of delivery equipment; gas, tires, etc.

Insurance — Premiums paid to insure all assets against fire, theft, etc.

Taxes — All taxes on stock, fixtures, delivery equipment, etc.

Depreciation — All depreciation on furniture, fixtures, machinery and office equipment, delivery equipment, etc.

Credit Card Expense — Bank charges for processing credit card sales.

Interest on Borrowed Money — The amount of interest paid on borrowed money for all types of notes, loans.

Store and Shop Supplies — The costs of all supplies used in the operation of the store.

Legal and Accounting — The cost incurred for auditing, inventory count, collectors and legal consultation.

Computer Services — Any fees for outside computer services, plus all costs (excluding payroll) for establishing and maintaining a system in-house.

Dues and Subscriptions — Fees for memberships and subscriptions, and expenses for employee training.

Travel, Buying, Entertainment — All expenses incurred in business trips and the entertainment of guests.

Miscellaneous Services — All fees for services such as laundry, garbage disposal, snow removal, etc.

Unclassified — All expenses not classified under other headings.

Net Operating Profit — Return on sales before Other Income and Income Taxes when expressed as a percent of Net Sales indicates the percent return on each dollar of sales.

Other Income — Cash discounts earned, cash over or short, interest dividends, finance charges, commissions, tax allowances and rental and sundry income.

Net Profit (Before Income Tax) — The net return from the operation of the business.

Balance Sheet

The balance sheet is a statement of financial position at a given point in time; the Report presents year-ending balance sheets. The balance sheet equation is expressed as Assets equal Liabilities plus Net Worth.

Current Assets — Cash; notes receivable in the current year; accounts receivable (less reserve for doubtful accounts); merchandise inventories and other assets with a defined short-term life of one year — all prepaid expenses.

Investments — Assets with a long-term life such as stocks and bonds or real estate which are not needed to operate the business.

Fixed Assets — Assets with a long-term life which are needed to carry out a firm's normal business activities. The Financial Report includes only tangible assets at book value less accumulated depreciation. Included in addition to land, buildings and leasehold improvements are delivery equipment, machinery and office equipment, furniture, fixtures, etc.

Current Liabilities — All debts which are due within one year — accounts payable, current portion of notes payable, accrued payroll and other taxes, insurance, interest, etc.

Long-Term Liabilities — All debts, mortgages, and loans which mature or are due more than one year from the date of the balance sheet, deferred income taxes.

Net Worth — Total assets minus current and long-term liabilities equals net worth or the owner's equity in the business.

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Financial Ratios
The financial position of a firm is determined from a review of its financial statements — the income statement and the balance sheet. The analysis of the financial performance of a firm views the interaction of the two financial statements through the measurement of proportions within the structure of the two statements. The proportions are tested by ratio analysis. Sixteen financial ratios are presented in this Financial Report.

Profit On Investment
—Computed by dividing Net Profit Before Taxes by Net Worth; expressed as a percentage.
—Measures the return on the owner's invested capital and is the modern criterion for profitability. Today's home center operators should program their operations to achieve a rate of Return-On-Investment of at least 15% after taxes.

Active Owner's Return
—Computed by adding Owner's Salary to Net Profit Before Taxes and then dividing by Net Worth; expressed as a percentage.
—Measures the total return to owners and is applicable to proprietorships, partnerships and small corporations. This ratio allows comparison between operators with different philosophies regarding salaries and profits.

Current Asset Ratio
—Computed by dividing Total Current Assets by Total Current Liabilities; expressed in "times".
—Measures the ability to pay short-term Debts with Assets that may be converted to cash within a period of time corresponding to the maturity of the claims. The traditionally accepted minimum is 2 to 1 or 2.0 times.

Quick Asset Ratio
—Computed by dividing Current Assets minus Inventory by Current Liabilities; expressed in "times".
—Measures the ability to pay Current Debts from Current Assets without relying on the sale of inventory. The traditionally accepted minimum is 1.0 times.

Total Debt To Tangible Net Worth
—The Leverage Ratio, computed by dividing Total Liabilities by Tangible Net Worth; expressed as a percentage.
—Measures the owner's investment in comparison to financing provided by creditors and gives an indication of a firm's ability to acquire more debt.

Stock Turn Times
—Computed by dividing Cost of Goods Sold by Average Inventory at Cost (Beginning Inventory plus Year-end Inventory divided by two); expressed in "times".
—Measures the actual physical turnover of the inventory. A low rate of inventory turnover indicates the likelihood that a portion of the book value of the inventory includes obsolete or unusable items. A high ratio indicates efficiency in buying and inventory control; however too high a ratio may indicate the loss of potential sales due to inadquate stocking. Retail home center operators should achieve three turns or more per year.

Sales to Inventory
—Computed by dividing Net Sales by Average Inventory; expressed in "times".
—Measures merchandising efficiency and supplements the Stock Turn ratio in determining whether proper inventory control is achieved through scheduled and balanced buying.

Average Inventory Per Sq. Ft. of Sales Area
—Computed by dividing Average Inventory by Square Feet of Sales Area; expressed in dollar value of inventory at cost.
—A rough measure of merchandising efficiency.

Net Sales to Accounts Receivable
—Computed by dividing Net Sales by Accounts Receivable; expressed in "times".
—Measures the sales tied up in accounts receivable. This ratio is the most meaningful when compared to previous years' ratios, due to individual dealer policies of granting their own credit.

Net Sales to Total Assets
—Computed by dividing Net Sales by Total Assets; expressed in "times".
—Measures the use of all Assets to produce Sales. A high ratio may indicate over-trading on assets. A low ratio may indicate excessive investment resulting in idle capacity.

Net Sales to Net Worth
—Computed by dividing Net Sales by Tangible Net Worth; expressed in "times".
—Measures the extent to which sales are supported by invested capital.

Net Sales to Working Capital
—Computed by dividing Net Sales by Working Capital (Current Assets minus Current Liabilities); expressed in "times".
—Measures the demand on working capital to support the sales volume. A high ratio may limit the firm's ability to meet day to day debts.

Sales Per Sq. Ft. — Selling Area
—Computed by dividing Net Sales by Square Feet of Sales Area; expressed in retail sales dollars.
—Measures sales productivity.

Sales Per Sq. Ft. — Total Area
—Computed by dividing Net Sales by Square Feet of Total Area including warehouse and outside storage area; expressed in retail sales dollars.
—Measures sales productivity and indicates the amount of sales generated by each square foot of the total facility.

Sales Per Person Employed
—Computed by dividing Net Sales by the Total Number of Employees; expressed in retail sales dollars.
—Measures the efficiency of personnel in producing sales and is the most useful when compared to past performance.

Sales Per Customer
—Computed by dividing Net Sales by the Total Number of Customer Transactions; expressed in retail sales dollars.
—Measures the average sale per transaction. This ratio gives an indication of the store personnel's ability to make add-on sales.

All Home Centers

Income Statement Data	All Home Centers	Low Profit Centers	High Profit Centers
Number of Stores	161	39	40
Net Sales Volume	$2,001,228	$1,767,200	$2,023,529
Current Year's Sales vs. Previous Year*	+3.41%	+3.56%	+3.04%
Gross Sales	102.53%	101.26%	102.16%
Less: Total Deductions	2.53	1.26	2.16
Net Sales	100.0%	100.00%	100.00%
Cost of Goods Sold	71.24	73.16	69.40
Margin	28.76	26.84	30.60
Payroll and Other Employee Expense			
Salaries — Owners, Officers, Managers	2.92	2.38	2.75
Salaries — Other Employees	10.74	11.61	11.11
Federal and State Payroll Taxes	1.11	1.26	1.12
Group Insurance	.51	.66	.40
Benefit Plans	.49	.39	.47
Total Payroll and Other Employee Expense	15.77	16.30	15.85
Occupancy Expense			
Heat, Light, Power, Water	.69	.96	.67
Repairs to Building	.36	.37	.32
Rent or Ownership in Real Estate**	2.70	3.05	2.68
Total Occupancy Expense	3.75	4.38	3.67
Other Costs of Doing Business			
Office Supplies and Postage	.40	.27	.31
Advertising	1.93	2.40	1.72
Donations	.04	.04	.04
Telephone and Telegraph	.27	.28	.21
Bad Debts	.24	.09	.29
Credit Card Expense	.16	.20	.08
Delivery (Other than Wages)	.68	.30	.54
Leasing Expenses (Non-Occupancy)	.19	.49	.02
Insurance (Other than Real Estate and Group)	.52	.43	.62
Taxes (Other than Real Estate and Payroll)	.29	.51	.27
Interest on Borrowed Money (Other than Mortgages)	1.04	1.55	1.01
Depreciation (Other than Real Estate)	.60	.54	.56
Store and Shop Supplies	.26	.35	.26
Legal and Accounting	.40	.28	.34
Computer Services	.10	.09	.09
Dues and Subscriptions	.05	.05	.07
Travel, Buying, Entertainment	.26	.16	.13
Miscellaneous Services (Laundry, Disposal, Etc.)	.19	.70	.04
Unclassified	.81	.26	.49
Total Other Costs of Doing Business	8.43	8.99	7.09
Total Operating Expense	27.95	29.67	26.61
Net Operating Profit	.81	(2.83)	3.99
Other Income	1.65	1.66	2.38
Net Profit (Before Income Taxes)	2.46	(1.17)	6.37

*As reported to us by Bottom Line contributors.
**Ownership in Real Estate includes Taxes, Insurance and Depreciation on Land and Buildings and Interest on Mortgages.

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All Home Centers

Balance Sheet Data	All Home Centers	Low Profit Centers	High Profit Centers
Total Dollar Assets	$734,791	$554,023	$857,550
	% of Total Assets		
Assets			
Cash and Equivalent	4.65	4.41	7.06
Notes and Contracts Receivable	2.28	1.28	4.05
Accounts Receivable	16.87	12.30	16.88
Merchandise Inventory (End of Year)	43.94	50.94	42.59
Other Current Assets	2.73	1.81	2.72
Total Current Assets	70.47	70.74	73.30
Stocks and Bonds	3.20	1.96	4.65
Real Estate (Not Used In Business)	.62	2.27	.28
Other Investments	2.37	1.69	2.20
Total Investments	6.19	5.92	7.13
Land (Owned and Used In Business)	2.63	1.92	2.00
Buildings (Owned and Used In Business Less Depreciation)	10.23	10.29	8.36
Leasehold Improvements (Less Depreciation)	1.14	1.99	.73
Furniture, Fixtures, Equipment (Owned and Used in Business less Depreciation)	4.83	6.50	6.10
Delivery Equipment (Owned and Used in Business less Depreciation)	2.04	.55	1.81
Other Fixed Assets	2.47	2.09	.57
Total Fixed Assets	23.34	23.34	19.57
Total Assets	100.00%	100.00%	100.00%
Liabilities and Net Worth			
Accounts Payable	12.35	14.41	10.57
Notes Payable	7.82	7.41	6.63
Accrued Payroll Taxes	.76	.58	.21
Accrued Other Taxes	1.38	1.02	1.29
Other Accrued Expenses	3.13	2.74	3.10
Other Current Liabilities	1.34	1.45	1.36
Total Current Liabilities	26.78	27.61	23.16
Notes Due Partners/Officers	3.28	3.50	6.21
Mortgage Payable	4.13	1.57	6.03
Long Term Debt	9.25	24.10	5.33
Deferred Income Taxes	.23	.40	.31
Other Long Term Liabilities	1.90	2.40	1.11
Total Long Term Liabilities	18.79	31.97	18.99
Total Liabilities	45.57	59.58	42.15
Net Worth	54.43	40.42	57.85
Total Liabilities and Net Worth	100.00%	100.00%	100.00%
Financial Performance			
Profit on Investment	12.32%	(9.28)%	25.98%
Active Owner's Return	20.50%	2.58%	34.49%
Current Asset Ratio	2.63x	2.56x	3.16x
Quick Asset Ratio	.99x	.72x	1.33x
Total Debt to Tangible Net Worth	83.71%	147.29%	72.90%
Stock Turn Times	4.32x	4.24x	3.80x
Sales to Inventory Ratio	6.07x	5.80x	5.47x
Average Inventory per Sq. Ft. Sales Area	$41.90	$49.72	$28.07
Net Sales to Accounts Receivable	16.15x	25.94x	13.98x
Net Sales to Total Assets	2.72x	3.19x	2.36x
Net Sales to Net Worth	5.00x	7.89x	4.08x
Net Sales to Net Working Capital	6.23x	7.39x	4.71x
Other Operating Data			
Incoming Freight — % of Purchases	42%	16%	65%
Credit Sales — % of Total Gross Sales	47.54%	29.69%	45.49%
Consumer Sales — % of Total Gross Sales	66.99%	74.85%	74.75%
inventory - % Stored in Central Warehouse	6.55%	14.38%	.08%
Selling Area — Square Feet	13,494	13,604	16,232
Sales Per Square Foot — Selling Area	$148.31	$129.90	$124.66
Total Area — Square Feet	23,382	21,393	31,704
Sales Per Square Foot — Total Area	$85.59	$82.61	$63.83
Sales Per Person Employed	$89,718	$96,393	$79,969
Sales Per Customer	$26.17	$24.17	$21.01

Sales Volume Size

Income Statement Data	Sales Under $1,000,000	$1,000,000 To $2,999,999	Sales $3,000,000 Or More
Number of Stores	30	116	15
Net Sales Volume	$791,774	$1,978,244	$4,597,876
Current Year's Sales vs. Previous Year*	+.74%	+3.95%	+2.59%
Gross Sales	102.30%	102.83%	101.61
Less: Total Deductions	2.30	2.83	1.61
Net Sales	100.00%	100.00%	100.00%
Cost of Goods Sold	65.46	71.39	72.74
Margin	34.54	28.61	27.26
Payroll and Other Employee Expense			
Salaries — Owners, Officers, Managers	4.80	3.05	1.87
Salaries — Other Employees	11.93	10.57	10.71
Federal and State Payroll Taxes	1.42	1.14	.94
Group Insurance	.55	.57	.29
Benefit Plans	.15	.51	.54
Total Payroll and Other Employee Expense	18.85	15.84	14.35
Occupancy Expense			
Heat, Light, Power, Water	1.31	.68	.50
Repairs to Building	.36	.35	.42
Rent or Ownership in Real Estate**	4.73	2.60	2.29
Total Occupancy Expense	6.40	3.63	3.21
Other Costs of Doing Business			
Office Supplies and Postage	.34	.44	.29
Advertising	2.12	1.94	1.85
Donations	.05	.03	.06
Telephone and Telegraph	.31	.27	.23
Bad Debts	.42	.21	.30
Credit Card Expense	.24	.19	.06
Delivery (Other Than Wages)	.51	.70	.69
Leasing Expenses (Non-Occupancy)	.03	.26	.02
Insurance (Other Than Real Estate and Group)	.65	.54	.41
Taxes (Other Than Real Estate and Payroll)	.29	.29	.27
Interest on Borrowed Money (Other Than Mortgages)	2.03	.91	1.14
Depreciation (Other than Real Estate)	.66	.57	.68
Store and Shop Supplies	.43	.26	.20
Legal and Accounting	.32	.45	.28
Computer Services	.16	.09	.11
Dues and Subscriptions	.08	.05	.06
Travel, Buying, Entertainment	.20	.30	.17
Miscellaneous Services (Laundry, Disposal, etc.)	.07	.22	.13
Unclassified	.56	.96	.41
Total Other Costs of Doing Business	9.47	8.68	7.36
Total Operating Expense	34.72	28.15	24.92
Net Operating Profit	(.18)	.46	2.34
Other Income	1.59	1.64	1.71
Net Profit (Before Income Taxes)	1.41	2.10	4.05

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**Ownership in Real Estate includes Taxes, Insurance and Depreciation on Land and Buildings and Interest on Mortgages.

Sales Volume Size

Balance Sheet Data	Sales Under $1,000,000	$1,000,000 To $2,999,999	Sales $3,000,000 Or More
Total Dollar Assets	$426,201	$695,899	$1,652,732
	% of Total Assets		
Assets			
Cash and Equivalent	2.99	5.39	3.08
Notes and Contracts Receivable	1.93	1.41	5.27
Accounts Receivable	11.79	17.42	17.68
Merchandise Inventory (End of Year)	49.78	42.93	44.32
Other Current Assets	2.52	2.47	3.67
Total Current Assets	69.01	69.62	74.02
Stocks and Bonds	2.03	3.10	4.13
Real Estate (Not Used in Business)	.23	.71	.51
Other Investments	4.55	2.26	1.59
Total Investments	6.81	6.07	6.23
Land (Owned and Used in Business)	2.30	3.23	.87
Buildings (Owned and Used in Business less Depreciation)	8.86	11.33	7.34
Leasehold Improvements (Less Depreciation)	.37	1.22	1.28
Furniture, Fixtures, Equipment (Owned and Used in Business less Depreciation)	7.61	4.51	4.42
Delivery Equipment (Owned and Used in Business less Depreciation)	1.55	1.86	2.86
Other Fixed Assets	3.49	2.16	2.98
Total Fixed Assets	24.18	24.31	19.75
Total Assets	100.00%	100.00%	100.00%
Liabilities And Net Worth			
Accounts Payable	7.32	12.07	15.86
Notes Payable	9.21	7.01	9.73
Accrued Payroll Taxes	.38	.99	.22
Accrued Other Taxes	.59	1.64	.94
Other Accrued Expenses	2.16	3.51	2.40
Other Current Liabilities	1.52	.69	3.37
Total Current Liabilities	21.18	25.91	32.52
Notes Due Partners/Officers	9.31	2.13	3.91
Mortgage Payable	8.12	4.13	2.04
Long Term Debt	10.97	9.59	7.24
Deferred Income Taxes		.22	.37
Other Long Term Liabilities	3.94	1.38	2.55
Total Long Term Liabilities	32.34	17.45	16.11
Total Liabilities	53.52	43.36	48.63
Net Worth	46.48	56.64	51.37
Total Liabilities And Net Worth	100.00%	100.00%	100.00%
Financial Performance			
Profit on Investment	5.62%	10.53%	21.92%
Active Owner's Return	19.70%	18.10%	29.51%
Current Asset Ratio	3.26x	2.69x	2.28x
Quick Asset Ratio	.91x	1.03x	.91x
Total Debt to Tangible Net Worth	115.07%	76.57%	94.68%
Stock Turn Times	2.39x	4.55x	4.73x
Sales to Inventory Ratio	3.65x	6.38x	6.50x
Average Inventory per Sq. Ft. Sales Area	$23.26	$47.30	$46.82
Net Sales to Accounts Receivable	15.76x	16.32x	15.73x
Net Sales to Total Assets	1.86x	2.84x	2.78x
Net Sales to Net Worth	4.00x	5.02x	5.42x
Net Sales to Net Working Capital	3.88x	6.50x	6.71x
Other Operating Data			
Incoming Freight — % of Purchases	.58%	.39%	.44%
Credit Sales — % of Total Gross Sales	37.32%	47.96%	49.68%
Consumer Sales — % of Total Gross Sales	85.03%	63.00%	61.73%
Inventory - % Stored in Central Warehouse	--	9.08%	.07%
Selling Area — Square Feet	13,840	12,504	20,460
Sales Per Square Foot — Selling Area	$57.21	$158.21	$224.73
Total Area — Square Feet	21,070	21,597	41,714
Sales Per Square Foot — Total Area	$37.58	$91.60	$110.22
Sales Per Person Employed	$54,105	$95,180	$92,575
Sales Per Customer	$9.52	$27.66	$54.26

Sales Floor Size

Income Statement Data	Sales Area Under 10,000 Sq. Ft.	10,000 Sq. Ft. To 19,999 Sq. Ft.	Sales Area 20,000 Sq. Ft. or More
Number of Stores	62	75	24
Net Sales Volume	$1,874,154	$1,838,978	$2,836,530
Current Year's Sales vs. Previous Year*	-2.22%	+6.78%	+7.33%
Gross Sales	103.77%	101.73%	102.02%
Less: Total Deductions	3.77	1.73	2.02
Net Sales	100.00%	100.00%	100.00%
Cost of Goods Sold	72.39	70.40	70.98
Margin	27.61	29.60	29.02
Payroll and Other Employee Expense			
Salaries — Owners, Officers, Managers	3.49	3.02	1.76
Salaries — Other Employees	9.75	11.18	11.46
Federal and State Payroll Taxes	1.24	1.07	.98
Group Insurance	.72	.37	.44
Benefit Plans	.48	.46	.56
Total Payroll and Other Employee Expense	15.68	16.10	15.20
Occupancy Expense			
Heat, Light, Power, Water	.59	.72	.78
Repairs to Building	.34	.39	.35
Rent or Ownership in Real Estate**	1.99	3.26	2.72
Total Occupancy Expense	2.92	4.37	3.85
Other Costs of Doing Business			
Office Supplies and Postage	.59	.29	.32
Advertising	1.98	1.77	2.18
Donations	.02	.04	.05
Telephone and Telegraph	.28	.27	.23
Bad Debts	.04	.40	.25
Credit Card Expense	.28	.10	.08
Delivery (Other Than Wages)	.65	.73	.66
Leasing Expenses (Non-Occupancy)	.28	.21	.01
Insurance (Other than Real Estate and Group)	.43	.55	.62
Taxes (Other than Real Estate and Payroll)	.14	.39	.33
Interest on Borrowed Money (Other than Mortgages)	.53	1.30	1.39
Depreciation (Other than Real Estate)	.53	.44	1.04
Store and Shop Supplies	.18	.29	.34
Legal and Accounting	.59	.31	.28
Computer Services	.06	.07	.22
Dues and Subscriptions	.04	.06	.06
Travel, Buying, Entertainment	.43	.19	.13
Miscellaneous Services (Laundry, Disposal, etc.)	.40	.04	.14
Unclassified	1.57	.43	.30
Total Other Costs of Doing Business	9.02	7.88	8.63
Total Operating Expense	27.62	28.35	27.68
Net Operating Profit	(.01)	1.25	1.34
Other Income	1.72	1.37	2.10
Net Profit (Before Income Taxes)	1.71	2.62	3.44

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Sales Floor Size

Balance Sheet Data	Sales Area Under 10,000 Sq. Ft.	10,000 Sq. Ft. To 19,999 Sq. Ft.	Sales Area 20,000 Sq. Ft. Or More
Total Dollar Assets	$629,742	$709,446	$1,085,369
		% of Total Assets	
Assets			
Cash and Equivalent	3.46	4.49	6.75
Notes and Contracts Receivable	1.61	1.44	4.98
Accounts Receivable	19.28	17.67	11.59
Merchandise Inventory (End of Year)	36.66	47.59	47.45
Other Current Assets	2.66	2.47	3.36
Total Current Assets	63.67	73.66	74.13
Stocks and Bonds	1.28	3.98	4.51
Real Estate (Not Used in Business)	1.38	.27	.19
Other Investments	1.04	2.37	4.37
Total Investments	3.70	6.62	9.07
Land (Owned and Used in Business)	5.80	1.33	.55
Buildings (Owned and Used in Business Less Depreciation)	16.37	8.42	4.69
Leasehold Improvements (Less Depreciation)	1.26	1.20	.84
Furniture, Fixtures, Equipment (Owned and Used in Business less Depreciation)	2.73	5.58	6.44
Delivery Equipment (Owned and Used in Business less Depreciation)	2.11	2.29	1.42
Other Fixed Assets	4.36	.90	2.86
Total Fixed Assets	32.63	19.72	16.80
Total Assets	100.00%	100.00%	100.00%
Liabilities And Net Worth			
Accounts Payable	8.19	14.62	13.95
Notes Payable	4.41	10.18	8.10
Accrued Payroll Taxes	1.89	.17	.26
Accrued Other Taxes	2.15	1.02	.94
Other Accrued Expenses	2.80	3.18	3.54
Other Current Liabilities	.63	1.20	2.70
Total Current Liabilities	20.07	30.37	29.49
Notes Due Partners/Officers	2.03	4.56	2.54
Mortgage Payable	3.24	5.44	2.77
Long Term Debt	8.49	7.89	13.17
Deferred Income Taxes	.22	.14	.41
Other Long Term Liabilities	1.23	3.02	.62
Total Long Term Liabilities	15.21	21.05	19.51
Total Liabilities	35.28	51.42	49.00
Net Worth	64.72	48.58	51.00
Total Liabilities And Net Worth	100.00%	100.00%	100.00%
Financial Performance			
Profit on Investment	7.84%	13.98%	17.63%
Active Owner's Return	12.64%	26.38%	24.04%
Current Asset Ratio	3.17x	2.42x	2.51x
Quick Asset Ratio	1.35x	.86x	.90x
Total Debt to Tangible Net Worth	54.50%	105.92%	96.07%
Stock Turn Times	5.40x	3.87x	3.89x
Sales to Inventory Ratio	7.45x	5.50x	5.48x
Average Inventory per Sq. Ft. Sales Area	$83.53	$37.03	$30.81
Net Sales to Accounts Receivable	15.43x	14.67x	22.54x
Net Sales to Total Assets	2.98x	2.59x	2.61x
Net Sales to Net Worth	4.60x	5.34x	5.12x
Net Sales to Net Working Capital	6.83x	5.99x	5.86x
Other Operating Data			
Incoming Freight — % of Purchases	37%	.38%	.57%
Credit Sales — % of Total Gross Sales	48.12%	51.73%	38.09%
Consumer Sales — % of Total Gross Sales	60.89%	70.17%	72.19%
Inventory — % Stored in Warehouse	6.34%	6.53%	7.13%
Selling Area — Square Feet	8,438	13,427	26,764
Sales Per Square Foot — Selling Area	$222.11	$136.96	$105.98
Total Area — Square Feet	14,956	25,517	39,365
Sales Per Square Foot — Total Area	$125.31	$72.07	$72.06
Sales Per Person Employed	$112,268	$79,871	$81,749
Sales Per Customer	$38.61	$17.27	$25.62

Type of Origin

Income Statement Data	Originally Hardware Store	Originally Lumber Building Materials	Organized As Home Center
Number of Stores	47	93	15
Net Sales Volume	$1,486,688	$2,331,548	$2,095,947
Current Year's Sales vs. Previous Year*	+6.72%	+2.10%	+5.39%
Net Sales	100.00%	100.00%	100.00%
Cost of Goods Sold	68.78	72.60	68.37
Margin	31.22	27.40	31.63
Payroll and Other Employee Expense			
Salaries — Owners, Officers, Managers	3.70	2.72	2.50
Salaries — Other Employees	11.06	10.30	12.06
Federal and State Payroll Taxes	1.01	1.18	.92
Group Insurance	.42	.58	.24
Benefit Plans	.43	.52	.49
Total Payroll and Other Employee Expense	16.62	15.30	16.21
Occupancy Expense			
Heat, Light, Power, Water	.93	.56	.96
Repairs to Building	.27	.38	.46
Rent or Ownership in Real Estate**	3.90	2.19	3.45
Total Occupancy Expense	5.10	3.13	4.87
Other Costs of Doing Business			
Advertising	2.07	1.80	2.51
Depreciation (Other than Real Estate)	.73	.55	.64
Insurance (Other than Real Estate or Group)	.57	.48	.67
Taxes (Other than Real Estate or Payroll)	.49	.17	.64
All Other Expenses	4.32	5.56	3.73
Total Other Costs of Doing Business	8.18	8.56	8.19
Total Operating Expense	29.90	26.99	29.27
Net Operating Profit	1.32	.41	2.36
Other Income	1.35	1.72	1.80
Net Profit (Before Income Taxes)	2.67	2.13	4.16
Financial Performance			
Profit on Investment	12.77%	10.31%	32.85%
Active Owner's Return	26.02%	16.23%	47.02%
Current Asset Ratio	2.98x	2.58x	2.04x
Quick Asset Ratio	.93x	1.08x	.59x
Total Debt to Tangible Net Worth	100.25%	71.23%	152.75%
Stock Turn Times	3.09x	5.06x	4.09x
Sales to Inventory Ratio	4.49x	6.97x	5.98x
Average Inventory per Sq. Ft. Sales Area	$32.57	$55.40	$31.26
Net Sales to Accounts Receivable	21.02x	14.21x	31.30x
Net Sales to Total Assets	2.38x	2.83x	3.12x
Net Sales to Net Worth	4.77x	4.85x	7.88x
Net Sales to Net Working Capital	4.80x	6.83x	7.93x
Other Operating Data			
Incoming Freight — % of Purchases	76%	.33%	.21%
Credit Sales — % of Total Gross Sales	33.16%	54.02%	35.32%
Consumer Sales — % of Total Gross Sales	78.51%	56.71%	86.20%
Inventory — % Stored in Central Warehouse	3.40%	9.49%	.73%
Selling Area — Square Feet	15,842	11,641	19,031
Sales Per Square Foot — Selling Area	$93.84	$200.29	$110.13
Total Area — Square Feet	26,507	22,393	23,390
Sales Per Square Foot — Total Area	$56.09	$104.12	$89.61
Sales Per Person Employed	$69,798	$106,419	$65,635
Sales Per Customer	$12.44	$36.98	$26.07

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Trade Area Size

Income Statement Data	S. M. S. A.	Cities 10,000 to 50,000	Rural Areas Under 10,000
Number of Stores	66	35	59
Net Sales Volume	$2,078,559	$1,862,094	$1,997,972
Current Year's Sales vs. Previous Year*	+ 2.28%	+ 7.45%	+ 2.39%
Net Sales	100.00%	100.00%	100.00%
Cost of Goods Sold	71.35	70.16	71.84
Margin	28.65	29.84	28.16
Payroll and Other Employee Expense			
Salaries — Owners, Officers, Managers	3.49	2.63	2.29
Salaries — Other Employees	10.11	12.10	10.70
Federal and State Payroll Taxes	1.08	1.01	1.22
Group Insurance	.42	.63	.56
Benefit Plans	.51	.45	.49
Total Payroll and Other Employee Expense	15.61	16.82	15.26
Occupancy Expense			
Heat, Light, Power, Water	.61	.74	.74
Repairs to Building	.32	.38	.41
Rent or Ownership in Real Estate**	2.41	3.24	2.68
Total Occupancy Expense	3.34	4.36	3.83
Other Costs of Doing Business			
Advertising	1.91	1.94	1.93
Depreciation (Other than Real Estate)	.68	.73	.43
Insurance (Other than Real Estate or Group)	.47	.54	.58
Taxes (Other than Real Estate or Payroll)	.18	.37	.37
All Other Expenses	5.76	4.35	4.80
Total Other Costs of Doing Business	9.00	7.93	8.11
Total Operating Expense	27.95	29.11	27.20
Net Operating Profit	.70	.73	.96
Other Income	1.13	2.43	1.84
Net Profit (Before Income Taxes)	1.83	3.16	2.80
Financial Performance			
Profit on Investment	9.52%	13.05%	14.93%
Active Owner's Return	15.85%	22.94%	23.37%
Current Asset Ratio	2.32x	3.15x	2.74x
Quick Asset Ratio	.83x	1.17x	1.11x
Total Debt to Tangible Net Worth	78.15%	74.90%	96.22%
Stock Turn Times	4.55x	3.75x	4.45x
Sales to Inventory Ratio	6.37x	5.35x	6.20x
Average Inventory per Sq. Ft. Sales Area	$63.81	$25.74	$43.05
Net Sales to Accounts Receivable	16.67x	14.42x	16.41x
Net Sales to Total Assets	2.93x	2.36x	2.72x
Net Sales to Net Worth	5.23x	4.13x	5.33x
Net Sales to Net Working Capital	7.22x	4.96x	6.12x
Other Operating Data			
Incoming Freight — % of Purchases	.15%	.29%	.77%
Credit Sales — % of Total Gross Sales	49.48%	51.11%	43.93%
Consumer Sales — % of Total Gross Sales	58.41%	74.57%	71.56%
Inventory — % Stored in Central Warehouse	5.97%	.03%	11.17%
Selling Area — Square Feet	12,440	16,265	13,010
Sales Per Square Foot — Selling Area	$167.09	$114.48	$153.57
Total Area — Square Feet	17,654	29,440	25,949
Sales Per Square Foot — Total Area	$117.74	$63.25	$77.00
Sales Per Person Employed	$91,782	$73,754	$98,976
Sales Per Customer	$27.58	$22.53	$27.71

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Store Location: Part I

Income Statemen' Data	Downtown	Suburban	Rural
Number of Stores	23	121	10
Net Sales Volume	$1,758,687	$2,131,311	$1,697,342
Current Year's Sales vs. Previous Year*	+9.27%	+2.27%	+6.64%
Net Sales	100.00%	100.00%	100.00%
Cost of Goods Sold	69.69	71.61	71.59
Margin	30.31	28.39	28.41
Payroll and Other Employee Expense			
Salaries — Owners, Officers, Managers	2.29	2.97	2.99
Salaries — Other Employees	11.74	10.51	9.49
Federal and State Payroll Taxes	1.11	1.11	1.15
Group Insurance	.55	.50	.50
Benefit Plans	.53	.51	.31
Total Payroll and Other Employee Expense	16.22	15.60	14.44
Occupancy Expense			
Heat, Light, Power, Water	.81	.64	.96
Repairs to Building	.26	.39	.38
Rent or Ownership in Real Estate**	3.42	2.52	3.01
Total Occupancy Expense	4.49	3.55	4.35
Other Costs of Doing Business			
Advertising	1.63	2.00	1.43
Depreciation (Other than Real Estate)	.75	.61	.17
Insurance (Other than Real Estate or Group)	.80	.46	.62
Taxes (Other than Real Estate or Payroll)	.25	.31	.13
All Other Expenses	4.86	5.15	5.87
Total Other Costs of Doing Business	8.29	8.53	8.22
Total Operating Expense	29.00	27.68	27.01
Net Operating Profit	1.31	.71	1.40
Other Income	1.74	1.72	.62
Net Profit (Before Income Taxes)	3.05	2.43	2.02
Financial Performance			
Profit on Investment	10.22%	13.02%	14.00%
Active Owner's Return	15.60%	21.14%	28.39%
Current Asset Ratio	3.44x	2.49x	2.49x
Quick Asset Ratio	1.51x	.91x	.79x
Total Debt to Tangible Net Worth	73.91%	83.13%	145.97%
Stock Turn Times	3.50x	4.55x	4.13x
Sales to Inventory Ratio	5.02x	6.35x	5.77x
Average Inventory per Sq. Ft. Sales Area	$28.46	$49.76	$35.94
Net Sales to Accounts Receivable	10.53x	17.19x	18.92x
Net Sales to Total Assets	1.93x	2.92x	2.82x
Net Sales to Net Worth	3.35x	5.36x	6.93x
Net Sales to Net Working Capital	3.92x	6.96x	6.50x
Other Operating Data			
Incoming Freight — % of Purchases	.36%	.41%	.55%
Credit Sales — % of Total Gross Sales	51.39%	46.50%	63.86%
Consumer Sales — % of Total Gross Sales	71.26%	64.80%	65.20%
Inventory — % Stored in Central Warehouse	.09%	6.48%	26.80%
Selling Area — Square Feet	13,979	13,558	12,380
Sales Per Square Foot — Selling Area	$125.81	$157.20	$137.10
Total Area — Square Feet	25,052	23,148	23,078
Sales Per Square Foot — Total Area	$70.20	$92.07	$73.55
Sales Per Person Employed	$87,958	$89,638	$119,531
Sales Per Customer	$27.20	$26.55	$16.90

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Store Location: Part II

Income Statement Data	Shopping Centers: Neighborhood	Shopping Centers: Community Or Regional	Free-Standing: No Stores Adjacent	Free-Standing: Stores Nearby
Number of Stores	20	8	75	54
Net Sales Volume	$1,870,994	$1,406,243	$1,890,421	$2,382,357
Current Year's Sales vs. Previous Year*	+12.03%	+21.44%	-.40%	+4.07%
Net Sales	100.00%	100.00%	100.00%	100.00%
Cost of Goods Sold	72.19	66.65	71.00	71.81
Margin	27.81	33.35	29.00	28.19
Payroll and Other Employee Expense				
Salaries — Owners, Officers, Managers	2.62	2.89	3.76	2.04
Salaries — Other Employees	10.08	12.67	10.25	11.12
Federal and State Payroll Taxes	.87	.36	1.21	1.14
Group Insurance	.19	.07	.59	.55
Benefit Plans	.24	.37	.52	.55
Total Payroll and Other Employee Expense	14.00	16.36	16.33	15.40
Occupancy Expense				
Heat, Light, Power, Water	.83	1.17	.67	.61
Repairs to Building	.43	.81	.31	.37
Rent or Ownership in Real Estate**	3.37	4.48	2.51	2.51
Total Occupancy Expense	4.63	6.46	3.49	3.49
Other Costs of Doing Business				
Advertising	1.65	2.75	1.90	1.95
Depreciation (Other than Real Estate)	.40	1.04	.63	.59
Insurance (Other than Real Estate or Group)	.46	1.09	.49	.51
Taxes (Other than Real Estate or Payroll)	.17	.95	.23	.34
All Other Expenses	5.33	3.62	5.42	4.80
Total Other Costs of Doing Business	8.01	9.45	8.67	8.19
Total Operating Expense	26.64	32.27	28.49	27.08
Net Operating Profit	1.17	1.08	.51	1.11
Other Income	.94	.84	1.88	1.67
Net Profit (Before Income Taxes)	2.11	1.92	2.39	2.78
Financial Performance				
Profit on Investment	19.09%	14.81%	10.54%	13.96%
Active Owner's Return	35.67%	29.36%	17.49%	21.67%
Current Asset Ratio	2.02x	1.90x	2.80x	2.75x
Quick Asset Ratio	.66x	.45x	1.15x	1.03x
Total Debt to Tangible Net Worth	188.23%	177.26%	60.67%	90.91%
Stock Turn Times		3.56x	4.72x	4.23x
Sales to Inventory Ratio		5.34x	6.64x	5.90x
Average Inventory per Sq. Ft. Sales Area		$30.39	$39.35	$48.62
Net Sales to Accounts Receivable	15.57x	49.65x	14.36x	17.63x
Net Sales to Total Assets	3.15x	2.78x	2.75x	2.63x
Net Sales to Net Worth	9.07x	7.72x	4.42x	5.02x
Net Sales to Net Working Capital	7.31x	8.37x	6.33x	5.92x
Other Operating Data				
Incoming Freight — % of Purchases	.15%	.17%	.26%	.66%
Credit Sales — % of Total Gross Sales	47.74%	40.66%	49.95%	45.95%
Consumer Sales — % of Total Gross Sales	66.20%	91.38%	60.84%	70.17%
Inventory — % Stored in Central Warehouse	11.15%	--	5.72%	7.44%
Selling Area — Square Feet	14,176	15,975	13,465	13,017
Sales Per Square Foot — Selling Area	$131.98	$88.03	$140.40	$183.02
Total Area — Square Feet	23,546	17,188	21,683	26,496
Sales Per Square Foot — Total Area	$79.46	$81.82	$87.18	$89.91
Sales Per Person Employed	$78,779	$52,727	$91,718	$99,495
Sales Per Customer	$10.07	$12.91	$36.41	$28.48

*As reported to us by Bottom Line contributors.
**Ownership in Real Estate includes Taxes, Insurance and Depreciation on Land and Buildings and Interest on Mortgages.

Number of Stores

Income Statement Data	Single Store Business	Multiple Store Business
Number of Stores	69	92
Net Sales Volume	$1,828,572	$2,130,719
Current Year's Sales vs. Previous Year*	+4.29%	+2.91%
Net Sales	100.00%	100.00%
Cost of Goods Sold	70.60	71.65
Margin	29.40	28.35
Payroll and Other Employee Expense		
Salaries — Owners, Officers, Managers	2.99	2.89
Salaries — Other Employees	11.14	10.41
Federal and State Payroll Taxes	1.16	1.08
Group Insurance	.42	.57
Benefit Plans	.50	.48
Total Payroll and Other Employee Expense	16.21	15.43
Occupancy Expense		
Heat, Light, Power, Water	.66	.71
Repairs to Building	.31	.40
Rent or Ownership in Real Estate**	2.98	2.51
Total Occupancy Expense	3.95	3.62
Other Costs of Doing Business		
Advertising	1.76	2.04
Depreciation (Other than Real Estate)	.61	.60
Insurance (Other than Real Estate or Group)	.63	.45
Taxes (Other than Real Estate or Payroll)	.24	.32
All Other Expenses	4.50	5.52
Total Other Costs of Doing Business	7.74	8.93
Total Operating Expense	27.90	27.98
Net Operating Profit	1.50	.37
Other Income	2.06	1.39
Net Profit (Before Income Taxes)	3.56	1.76
Financial Performance		
Profit on Investment	15.32%	9.83%
Active Owner's Return	26.17%	15.79%
Current Asset Ratio	2.73x	2.54x
Quick Asset Ratio	1.07x	.92x
Total Debt to Tangible Net Worth	91.89%	76.90%
Stock Turn Times	3.61x	4.94x
Sales to Inventory Ratio	5.12x	6.89x
Average Inventory per Sq. Ft. Sales Area	$26.51	$84.28
Net Sales to Accounts Receivable	12.66x	19.64x
Net Sales to Total Assets	2.25x	3.15x
Net Sales to Net Worth	4.31x	5.58x
Net Sales to Net Working Capital	4.89x	7.57x
Other Operating Data		
Incoming Freight — % of Purchases	.40%	.43%
Credit Sales — % of Total Gross Sales	48.28%	47.07%
Consumer Sales — % of Total Gross Sales	72.42%	62.91%
Inventory — % Stored in Central Warehouse	.06%	11.41%
Selling Area — Square Feet	13,474	13,509
Sales Per Square Foot — Selling Area	$135.71	$157.73
Total Area — Square Feet	26,460	21,117
Sales Per Square Foot — Total Area	$69.11	$100.90
Sales Per Person Employed	$87,124	$91,430
Sales Per Customer	$23.20	$28.11

*As reported to us by Bottom Line contributors

**Ownership in Real Estate includes Taxes, Insurance and Depreciation on Land and Buildings and Interest on Mortgages

Strategic Profit Model

Strategic Profit Model
The Strategic Profit Model can be an excellent management tool for home center retailers. The Model combines the principal elements of a firm's operating statment and balance sheet into a single profit planning equation, evaluating operating performance on the most important criteria — Return on Net Worth.

The Strategic Profit Model clearly identifies, through the use of financial ratio analysis, the three major operational areas that determine the rate of return on net worth: profit margin, asset turnover and leverage.

Several elements that can be controlled by management to improve the level of operational performance are:

Profit Margin
Sales — Increase sales through better displays and advertising, more promotions, addition of new lines, etc.

Cost of Goods Sold — Improve Gross Margin through variable pricing, efficient buying, etc.

Expenses — Trimming expenses is difficult in view of today's high inflation, labor costs, occupancy expense, etc., however, carefully review each item of expense for areas of cost savings.

Other Income — Take advantage of cash discounts, earnings from revolving or installment credit programs and other investments such as stock ownership.

Asset Turnover
Inventory — Decrease inventory level through a careful review of the levels of all items, trim slow moving items, eliminate obsolete items.

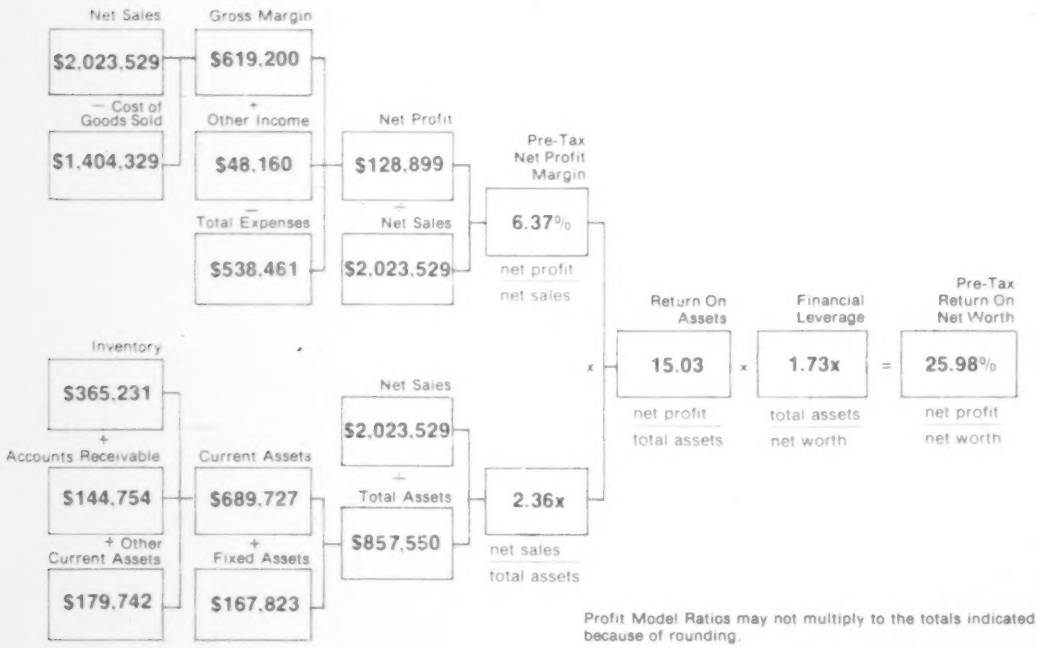
Accounts Receivable — Review status of accounts; if excessively high without the use of a finance charge, customers are operating on the firm's money.

Fixed Assets — Divide Net Sales by Fixed Assets; a substantially lower than industry average ratio indicates excessive investments resulting in idle capacity.

Leverage
The amount of borrowed funds has a number of major implications 1) creditors look to owner supplied funds to provide a margin of safety; 2) by raising funds through debt, owners gain the benefit of maintaining control of the firm with a limited investment and 3) if the firm earns more on borrowed funds than it pays in interest, return to owners is magnified.

Presented below is the Strategic Profit Model for the High Profit Stores category. Retailers interested in improving their performance should carefully review this model, as it represents the level of excellence achieved by industry leaders.

High-Profit Home Centers



Profit Model Ratios may not multiply to the totals indicated because of rounding.

Departmental Sales

Many Bottom Line contributors provided detailed information on sales, margins, inventory, cost of goods sold and space occupied by major departments found in U.S. home centers. More than half of the sample is made up of home centers with lumber and building material origins; the rest of the sample is comprised of centers with hardware origins and those organized as home centers. Although results may be somewhat biased toward lumber and building materials, the section should give an excellent indication of operating results obtained in various departments found in U.S. home centers.

Departmental Contributions

Shown for each department are the percent of firms handling, the share of net sales, sales floor space, inventory, cost of goods sold and dollar productivity per square foot of sales area. These data are for **Handling Firms Only.** All stores participating in the survey that did not carry a certain department were not included in the computation of the average data for that department.

As an example to help understand the meaning of the **Handling Firms Only** data, suppose the Lawn and Garden Department in the Financial Report shows that 90.0% of the reporting stores have a Lawn and Garden Department. The data shown for the Lawn and Garden Department are **only** for the 90.0% of stores who carry Lawn and Garden Equipment. Thus, **Handling Firms Only** data enable an operator to compare a specific department's data with the averages of other operators who also carry that department.

The Financial Report also presents an **Average Store Profile.** This profile shows data for a home center handling all departments and allows a comparison of the relationships among departments within a single operation.

But what of a home center that does not carry all the major departments? How can the relationships of only carried departments be compared to a total store industry average? The necessary data are contained in the Report — only a simple computation is required.

First, for each department carried, add the industry average percents for Net Sales. The sum of these percentages is then divided into each individual departmental percent. The resulting percentages are the **Average Store Profile** for an outlet carrying only these departments.

An example, a home center carries only four departments — Hardware, Hand and Power Tools, Paint and Sundries and Lumber/Building Materials. Assume the Financial Report indicates percent of Net Sales for handling firms for each department to be:

Hardware	15.0%
Hand and Power Tools	10.0%
Paint and Sundries	20.0%
Lumber/Building Materials	50.0%

The total of these percents equals 95.0%. Now divide the total (95.0%) into each of the individual department s percent:

Hardware	15.0 / 95.0	= 15.8%
Hand and Power Tools	10.0 / 95.0	= 10.5%
Paint and Sundries	20.0 / 95.0	= 21.1%
Lumber/Building Materials	50.0 / 95.0	= 52.6%

The resulting percentages' total should equal 100.0% and are the **Average Store Profile** for an outlet handling only Hardware, Hand and Power Tools, Paint and Sundries, and Lumber/Building Materials. This same procedure can be followed to determine the **Average Store Profile** for the percent of sales floor space, inventory and cost of goods sold.

Productivity

There are a number of ways in which to evaluate departmental performance including margin, turnover, sales productivity and margin contribution. The table presented on the following page examines these departmental evaluation criteria.

The first evaluative measure is departmental gross margin.

On the basis of margin alone, the following departments would be considered high performing departments: hardware and paint and paint sundries. Margin evaluations alone would indicate lumber, building materials and major appliances and home entertainment to be below average performance.

An additional measure is the sales to inventory ratio (net sales divided by average inventory at cost). On the basis of this ratio alone, lumber, building materials and lawn and garden departments highly exceed all the other department averages.

An excellent way for hardware store operators to evaluate departmental performance is through the concept of gross margin return on inventory investment or GMROI. GMROI considers both margin and turnover. GMROI is computed by taking the margin percentage times the sales to inventory ratio. Below, GMROI is expressed as an index. Lawn and Garden's GMROI, for example, is 1.71 which means $1.71 in margin is returned for each $1.00 invested in lawn and garden inventory. GMROI of 1.71 is computed by taking margin (25.9%) times the sales to inventory ratio (6.6x), (25.9% x 6.6 x = 1.71). Resultant GMROI figures give home center operators ways to measure departmental performance across diverse merchandise lines. Traditional high margin, low turnover departments may be compared with traditional low margin, high turnover departments.

An additional evaluative measure shown on the next page is sales per square foot of sales area. Individual home center operators may utilize other evaluations such as profit on sales or return on investment by department. Nearly all departmental evaluation methods rely on some type of inventory control system enabling operators to measure sales and purchases at least at the departmental level.

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Departmental Contribution

Department	Handling Firms Only: % Handling	% of Net Sales	% of Sales Floor	% of Inventory	% of Cost of Goods Sold	$ Sales Per Sq. Ft. Sales Area	Average Store Profile: % of Net Sales	% of Sales Floor	% of Inventory	% of Cost of Goods Sold
Hardware	100.0	7.4	9.8	10.0	6.4	131.02	7.3	9.4	9.8	6.3
Hand & Power Tools	100.0	3.7	7.8	5.6	3.5	102.86	3.5	7.1	5.2	3.3
Plumbing, Heating and Cooling	100.0	4.8	8.6	5.7	4.4	136.39	4.8	8.6	5.7	4.4
Electrical Supplies	100.0	3.8	5.4	4.7	3.4	121.29	3.7	4.9	4.6	3.3
Paint & Paint Sundries	97.1	6.7	7.5	7.9	5.7	133.11	6.5	7.5	7.7	5.5
Lumber	100.0	30.6	19.2	22.5	32.6	237.62	26.6	14.8	19.4	28.2
Building Materials	100.0	35.8	17.7	28.7	37.9	263.98	29.0	12.8	23.1	30.5
Lawn & Garden	92.2	5.0	9.2	4.6	5.1	93.64	4.6	8.8	4.2	4.7
Housewares	68.0	4.2	15.0	5.6	4.4	54.72	2.9	10.9	3.8	3.0
Automotive Supplies	60.2	2.4	3.1	3.5	2.3	124.31	1.5	1.3	2.1	1.4
Major Appliances & Home Entertainment	45.6	2.6	7.0	3.3	2.9	87.47	1.2	2.9	1.5	1.3
Sporting Goods & Outdoor Equipment	31.1	5.9	10.1	8.7	5.8	86.38	1.8	3.2	2.7	1.8
Other Departments	72.8	8.8	10.0	14.0	8.7	110.25	6.6	7.9	10.2	6.3
							100.0	100.0	100.0	100.0

Productivity

Department	Typical Store Profile: Gross Margin %	Sales To Inventory Ratio	GMROI
Hardware	38.3	4.6x	1.76
Hand & Power Tools	32.6	4.1x	1.34
Plumbing, Heating & Cooling	34.3	5.1x	1.75
Electrical Supplies	36.1	5.0x	1.81
Paint & Paint Sundries	39.0	5.2x	2.03
Lumber	23.6	7.7x	1.82
Building Materials	24.4	7.1x	1.73
Lawn & Garden	25.9	6.6x	1.71
Housewares	26.3	4.6x	1.21
Automotive Supplies	32.0	4.5x	1.44
Major Appliances & Home Entertainment	24.7	5.1x	1.26
Sporting Goods & Outdoor Equipment	28.3	4.0x	1.13
Other Departments	32.0	4.0x	1.28

New Home Center Data

To determine the feasibility of a new home center, four distinct planning phases are required:

—Preliminary Financial Analysis
—Market Analysis
—Formal Financial Analysis
—Development of Store Image

Phase I

As the ultimate criterion of feasibility for a proposed home center operation will be profitability, the planning process should begin with a preliminary financial analysis.

The investment required for a new home center can range between $25 to $60 per square foot, depending on locality, size, occupancy position and personal preferences.

Based on the desired size of the operation, utilize the industry operating averages presented in NRHA's The Bottom Line to estimate sales volumes, gross margins, salaries and other costs of doing business to project Net Profits and Return on Investment for the proposed home center. An important fact to remember is there is a direct correlation between the square feet of sales area, average dollar inventory and the attainable sales volumes.

If the preliminary financial analysis meets predetermined individual requirements in attainable salary levels, Net Profit and Return on Investment, the second phase of planning may be initiated.

Phase II
Site Location

The market area to be served by the proposed home center will be primarily determined by the selected site location. Nine major aspects of varying importance determine the worth of a given home center location. These aspects are listed below.

Shopping Pull — Businesses in the area which would help draw consumers to the area.

Parking Facilities — Adequate parking requires two to two and a half square feet of parking area for every square foot of selling area.

Walk-In Traffic
Traffic Count and Patterns
Accessibility
Visibility
Congestion

Shopping Ease — The ability for the consumer to get out of the store from the point of check-out to his or her auto with a large item.

Ingress and Egress — The ease with which customers can drive to or from the street to the parking area.

To select the best location, each prospective site should be assessed on the nine aspects to determine overall worth as a retail location. A subjective analysis of all aspects for each potential site available combined with an analysis of the cost for property and improvements will provide the basis for selecting the prime site location(s) for further analysis.

Primary Trade Area

After selection of the site(s), for the purpose of analysis it is necessary to bring the market area to be served to manageable proportions. Therefore a Primary Trade Area for the selected site location must be defined. The Primary Trade Area represents the geographical boundaries from which the majority of do-it-yourself consumer business for the proposed operation will be derived. These geographical boundries of the Primary Trade Area are affected by many variables. The most influencing variables are the proposed operation's size and merchandise mix, number of consuming residents required to support the operation, driving time to site location, the proximity of retail activity concentrations and natural or man-made barriers.

Size — The ability to draw consumers from a distance to a retail outlet is directly related to the size of the display area and the number, depth and breadth of departmental lines carried.

Number of Consumers — A 10,000 square foot store requires 30,000 to 35,000 consuming residents; a 20,000 square foot store requires 70,000 to 75,000 consuming residents.

Driving Time — Typically a 10,000 square foot store can draw consumers within a 10 to 15 minutes driving time, a 20,000 square foot store drawing within 15 to 20 minutes driving time.

Other Retail Stores — Proximity to highly active retail areas helps to share the burden of drawing consumers to the area for shopping purposes.

Barriers — Barriers affecting accessibility to selected site location can dramatically alter the boundries of the Primary Trade Area.

The feasibility of a new hardware store within a given Primary Trade Area is dependent on two major factors, the demographic characteristics of the consumers and the number and strength of the competitors.

Consumer Analysis

From past NRHA research it has been learned that demographic variables relating to population growth rate, income levels and incidence of owner-occupied housing are the most critical variables in predicting a consumers' propensity to spend on hardlines.

Population Growth Rate — A viable environment for a new home center requires that the Primary Trade Area experience a minimum of .5 to 1.0 percent annual increase in population with the preferred rate being 2.0 percent or more.

Income Levels — Consumers with middle to upper-middle income have the greatest propensity to purchase hardlines, lumber and building materials.

Type of Housing — Consumers who own their own homes will spend as much as 4 to 5 times more per year for hardlines, lumber and building materials than renters, mobile home or condominium owners.

Competitive Analysis

Although within a given Primary Trade Area consumer demographic variables may indicate a healthy environment for a new home center, feasibility for the proposed operation cannot be determined without an analysis of the competition.

Depending on merchandise mix, primary hardlines and lumber and building material sales represent 70 to 90 percent of the total sales volume for an average home center. Primary hardlines include: hardware, tools, electrical, plumbing, lawn and garden, paint and paint sundries. As these lines represent the substantial majority of sales for a home center, analysis to determine the feasibility of a new store should focus on these lines.

Retail stores which carry competitive lines and would be likely to be shopped by Primary Trade Area residents should be visited and assessed. These retail outlets include all hardware stores, home centers, lumber/building material outlets, mass merchandisers, discount stores, variety and drug stores and specialty stores.

The retail competitors should be delineated by location and preferably spotted on a map. All competitive departmental lines should be assessed on a rating scale. A scale of 1 to 5 has been utilized with a rating of 1 indicating the retailer offers a minimal selection of items and a 5 indicating an excellent departmental offering in both depth and breadth of line.

In this illustration the lawn/garden and paint departments are offered in depth by several strong competitors, indicating a possible market saturation in these lines. Plumbing has a fewer number of competitors carrying and no competitor offers a strong plumbing departmental presentation. The hardware, tools and electrical departments have many competitors, but only a few strong competitors.

To be a home center, the merchandise mix must include all primary hardlines plus lumber and building materials. However, due to the competitive structure of the Primary Trade Area and surrounding Market Area, strategic market thrust can be obtained by offering above average selections in departmental lines that are in poor supply.

In the illustration, based on the competitive situation and desired store image, the proposed operation should plan the following merchandise mix: Hardware — average to above average; Hand Tools — average; Electrical — average to above average; Plumbing — above average; Lawn/Garden — below average-heavy seasonal promotion only; Paint — average to below average; Paint Sundries — average to below average; Lumber, Building Materials — average to above average.

Illustration

	Hdwe.	Tools	Elec.	Plbg.	Lawn/ Gdn.	Pnt.	Sund- ries	Lmbr.	Bldg. Mat'l.
Site Area									
Variety Store	1	1	2	1	3	2			
Drug Store			1		1				
Downtown									
Home Center	5	4	5	4	4	5	5	5	3
Paint Store						5	2		
Auto Supplies		1	1						
East									
Hardware Store	4	3	4	2	5	3	3		
K-Mart	4	5	3	3	5	5	4	3	2
Lumber Outlet	2	1	2	2	1	3	3		
South									
Sears	4	5	4	4	5	5	4		2
Penney	3	4	3	3	4	4	3		
Sherwin Williams					5	5			
Gift Shop									
Super Drugs	2	1	2	2	3	2	1		
Total	25	25	27	21	36	39	25	8	7
# Of Competitors	8	9	10	8	10	10	8	2	3

Phase III

If the analysis indicates a positive environment in both the consumer and competitive characteristics of the Primary Trade Area, a formal financial analysis should then be developed. Unlike the preliminary analysis, this analysis should include the actual cost of land, building fixtures and equipment to determine the total investment required.

The analysis should also include a pro-forma income statement to estimate the profits (losses) for the first three years of operation. Wherever possible actual operating expenses should be utilized — rent, taxes, utilities etc. For those expense items that cannot be determined, NRHA's The Bottom Line will provide guidelines for estimation. Dependent on the projected profit (losses), total capital requirements including working capital will be determined.

One very important factor to remember is that a typical new store will take three years to reach maximum productivity and efficiency or what is termed "store maturity". Therefore do not be overly optimistic on setting performance goals. Based on 1981 dollars, the average new retail home center store will achieve sales volumes of only $60 to $70 per square foot in the first year of operation with a second year productivity of $70 to $80 per square foot.

Phase IV

Through a combined analysis of all planning phases, the consumer store image is developed.

Owner's Economic Constraints

Customer Identification

Posture of Major Competitors

will determine

Size of Facility

Merchandise Mix

Service Level

Price Statement

will determine

Store Layout, Design and Decor

which relays

Consumer Store Image

Member Services

Home Center Institute

The Home Center Institute is a service activity of the National Retail Hardware Association, established in 1972 to meet the unique needs of existing home center retailers and traditional hardware or lumber retailers who were changing into home centers.

HCI is the information and service center of the home center industry, and for the first time provides the consumer-oriented home center retailer with a focal point for industry action.

Included among HCI services are a wide variety of programs in the areas of sales training, management development and training, research, consumer information, seminars and workshops, advertising and promotion, management aids, merchandising aids and Washington legislative representation.

HCI concentrates its service activities in those areas where it would be prohibitively expensive — or impossible — for the member to develop his own programs.

HCI makes available to its membership the vast resources of the National Retail Hardware Association, which has established an industry-wide reputation for professional leadership and innovation in its nearly 80 years of serving hardgood retailers.

Management/Education Services

Behind every successful home center is a good management team. HCI is dedicated to providing the managerial and educational programs home center retailers need to manage more efficiently.

Consumer Material
A retailer's D-I-Y library, offering fifty different "Show How" pamphlets.

Show How Theatre
An in-store audio visual program for employee training and for showing manufacturer-provided films to consumers.

Employee Education
The "Advanced Course in Hardware Retailing" provides information on selling, merchandising and display.

Sales Training Workbooks for building materials, plumbing, electrical and hardware offer indepth specialized training.

"How To" tapes and workbooks teach middle management about pricing, theft, motivation, advertising, etc.

Legislative Representation
NRHA's director of government relations voices the home center retailers position on every pertinent issue to Congress, commissions and agencies.

Management Information
"Store Meeting Guide" and "Sales Tips" for employees combine instruction and motivation. "Departmental Merchandising Guide" suggests basic stock and location of displays. "Wage-Hour and Fair Employment Practices Handbook" covers laws and interpretations on employment practices.

Personnel Management Aids
Material to improve interviewing and evaluating job applicants and employees.

Seminars and Workshops
Subjects range from store management to ownership succession. Larger home centers, can make use of these seminars for "in-house" training programs.

Store Planning Services
Layout and Merchandising

There's more to furnishing a store than setting up some fixtures. It requires planning, designing the sales floor for maximum efficiency, creating an image with decor, display accessories, proper merchandising and installation of the entire store. The NRHA/HCI's Master Merchant Store Planning Program offers a single source consulting service in all these areas, staffed by highly trained and thoroughly experienced store engineers and merchandising consultants.

Store Planning
An association consultant can design a sales floor that makes effective use of space, appeals to the consumer, increases operating efficiency and improves profit.

Merchandising
Establishes the proper relationship between items and categories of merchandise, feature displays, improved impulse sales and related sales. It involves knowledge of the retailer's market area and the merchandise mix he needs.

Decor
More than identifying departments, good decor can stimulate the customer's buying urges, create a distinctive store image, make customers feel comfortable in the store and keep them coming back.

Fixtures and Equipment
NRHA/HCI provides retailers with fixtures designed specifically for home centers.

Installation
Supervised and scheduled by merchandising consultants working with dedication to minimize interruption of the business in an existing store, and towards on-time opening of a new store.

Leasing and Financing
Available through NRHA to help conserve operating funds for current merchandise needs.

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1982
Lumber/Building Materials Financial Report

Financial Report For Retail Lumber/Building Materials Outlets

NRHA
National
Retail Hardware
Association

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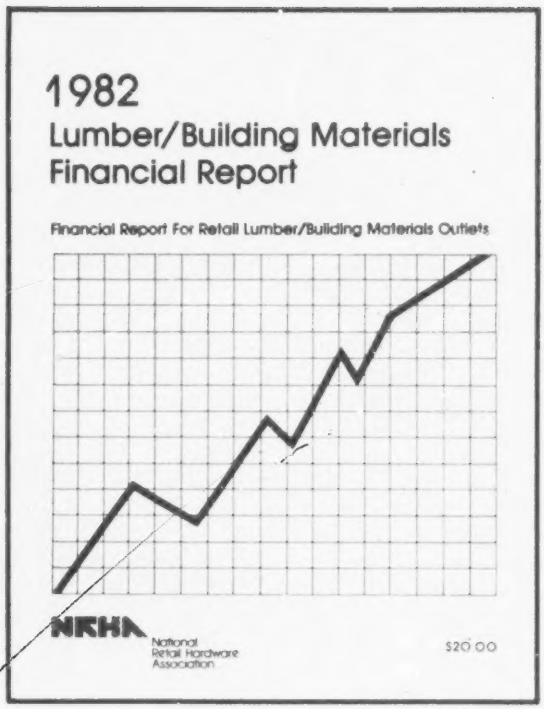
Contents



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Introduction

Lumber/Building Material Financial Report

The 1982 Lumber/Building Material Financial Report presents financial operating data for the consumer oriented lumber and building material industry. To be included a lumber/building material outlet must actively pursue and derive a portion of total sales from the consumer do-it-yourself market. The outlet must have a retail sales floor and carry basic hardlines in addition to lumber/building materials. The Report is designed to fulfill several objectives; to assess the financial performance of the lumber/building material industry in 1981; to provide comparative financial data so that retailers can measure their performance against other industry members; to provide a frame of reference for profit planning enabling lumber/building material retailers to continually improve performance levels. Additionally the Report provides an excellent means for manufacturers, wholesalers and other interested parties to gain a better understanding of the retail hardware industry.

Four Major Sections

The Lumber/Building Material Financial Report is divided into four major sections: Average Operating Results, Strategic Profit Model, Departmental Sales, and New Store Data. All results are presented as averages, computed by adding all data for a given item and then dividing by the total number of entries.

Average Operating Results includes data on sales, operating expenses, profits and financial performance. Income statement items are presented as a percentage of net sales and balance sheet items as a percentage of total assets.

The **Strategic Profit Model** combines the principal elements of a firm's operating statement and balance sheet into a single profit planning equation, evaluating operating performance on return on net worth.

In **Departmental Sales,** information is presented on the percent of stores handling major departments found in retail lumber/building materials outlets. The percent of net sales, sales floor, inventory and cost of goods sold are outlined both for handling firms only and for an average outlet profile.

In **New Store Data,** information on the required planning phases for new store development is presented.

Type of Outlet

Many factors influence a lumber/building material outlet's cost of doing business. Therefore, Report data are shown in different ways in order that individual operators may make meaningful comparisons. Information contained in Average Operating Results is presented for the following store types:

—High and Low Profit
—Sales Volume Size
—Sales Floor Size
—Trade Area Size
—Outlet Location
—Number of Outlets

Methodology

The Lumber/Building Material Financial Report is made possible only through the cooperation of the retail lumber/building material men and women who provided detailed information on their operation. Confidential mail questionnaires were sent to lumber/building material operators the end of February. Three hundred and twenty-seven usable returns were received by June in time for inclusion in this year's Report.

All dealer survey forms were edited for completeness by NRHA's Research Services Department Staff. Forms were coded for computer processing and **all individual firm identification removed.** The data was keypunched by a service bureau and then processed by our own data processing department.

As thanks for their contributive efforts, each lumber/building material operator who submitted detailed financial information was provided a personalized computer analysis. This customized analysis compared each contributor's results with averages of all other stores in the same sales volume, sales floor, geographical area, and store location categories, as well as with the averages for the entire sample.

One Of A Series

The National Retail Hardware Association publishes detailed Financial Operating Reports for three types of hardlines retailers. Studies which are available in addition to the Lumber/Building Material Financial Report are the Management Report for retail hardware stores and The Bottom Line for home centers. Each segment of the concentrated hardgoods market is provided with its own cost-of-doing business comparison manual.

For Assistance

Assistance and aid in interpreting the 1982 Lumber/Building Material Financial Report may be obtained from your regional Hardware Association.

Highlights

Industry averages are down slightly in all areas of financial performance. Net sales dipped from $1,398,518 to $1,371,983, as did gross margin and net profit before taxes. Costs appear to be up in all areas except for occupancy expense, which dropped from 2.87 to 2.37 percent. Stock turns remained relatively stable, but net profit on investment decreased to 10.29 percent. One thing we should point out is that the sales increase over 1980 figures presented below are *as reported to us* by the dealers — they are not the increase (decrease) over the figures presented in last year's book. Thus, although the industry average for net sales decreased, due to variations in the sample, those dealers which participated in the survey this year experienced an increase in sales for their particular stores.

Type of Lumber Outlet	Net Sales $	Sales Increase Over 1980* (%)	Margin (%)	Net Profit On Sales (%)	Net Profit On Investment (%)	Stock Turns x
All Lumber Outlets	1,371,983	+2.52	25.70	2.48	10.29	4.27
Low Profit	1,333,602	-5.21	23.41	(2.84)	(12.94)	3.66
High Profit	1,158,667	-.82	29.06	7.82	24.35	3.94
Sales Volume Size						
Under $500,000	355,636	+1.34	29.34	5.01	14.30	2.80
$500,000 to $999,999	738,000	-6.83	27.54	2.38	8.13	3.38
$1,000,000 to $1,999,999	1,271,182	+1.51	25.79	2.05	8.27	3.87
$2,000,000 or more	3,419,903	+6.57	24.70	2.60	12.43	5.35
Sales Floor Size						
Under 3,000 Sq. Ft.	896,526	-3.02	26.20	2.31	10.35	4.48
3,000 to 4,999 Sq. Ft.	1,077,545	+5.81	25.09	3.13	11.15	4.41
5,000 Sq. Ft. or more	1,889,588	+3.34	25.84	2.18	9.83	4.33
Trade Area Size						
S.M.S.A.	1,803,052	-2.25	27.35	4.21	16.94	4.81
Cities-10,000 to 50,000	1,240,027	+.31	25.55	1.65	6.91	4.13
Rural Areas Under 10,000	1,340,240	+5.32	25.33	2.22	9.20	4.19
Outlet Location:						
Downtown	827,004	+1.18	27.00	2.88	10.14	3.62
Suburban	1,681,575	+3.88	25.44	2.75	11.93	4.84
Rural	1,463,077	-4.97	24.66	(.71)	(3.27)	3.51

*As reported to us by contributing dealers.

Monthly Sales

Shown below are the industry average percent of sales by month. Although the year started off poorly with January and February sales at an all-time low, business began picking up again in the early spring. The remainder of the year was actually one of the most stable to date, with no great fluctuations in sales in any one month. One reason for this could be that consumers are spreading purchases out over longer periods of time, due to a lack of confidence in the economy.

	%
January	5.7
February	5.6
March	7.2
April	8.9
May	9.2
June	9.8
July	9.7
August	9.3
September	9.6
October	9.6
November	8.0
December	7.4

Average Operating Results

Income Statement Data

The Income Statement presents, in a single format, revenue derived from the sale of merchandise and expenses incurred to produce these sales. All Financial Report Income Statement data are presented as a percent of Net Sales, computed by dividing each item by the Net Sales.

Net Sales Volume — The dollar amount of cash sales plus credit sales less total deductions.

Total Deductions — Goods returned, discounts allowed, sales taxes and other taxes paid to secure licenses.

Cost of Goods Sold — Inventory First of the Year plus Purchases plus Freight In plus Shop Labor (Non-Employee) minus Purchase Rebates minus Inventory End of the Year equals Cost of Goods Sold.

Margin — The difference between Net Sales and the Cost of Goods Sold.

Salaries — The compensation including bonuses paid to owners, officers and store managers who work in the business.

Salaries — Other Employees — The compensation, wages and bonuses, paid to all other employees.

Federal and State Payroll Taxes — Federal and State Withholding, Unemployment Compensation and FICA Taxes.

Group Insurance — All premiums paid to insure employees for health and accident protection.

Benefit Plans — The employers' share of cost for employee welfare/benefit plans — life insurance, retirement, education, etc.

Heat, Light, Power and Water — All utility expenses incurred in the operation of the business.

Repairs to Building — All charges for incidental repairs which keep the building in ordinarily efficient operating condition.

Leasing Expenses (Non-Occupancy) — All costs involved in leasing furniture, fixtures, machinery and office equipment, delivery equipment, etc.

Office Supplies and Postage — The cost of all materials used for the firm's accounting records.

Rent or Ownership in Real Estate — Rent is the amount paid for properties used in the business. Ownership includes current year taxes, insurance, depreciation and interest on mortgages on land and buildings used in the business.

Advertising — Newspapers, circulars, calendars, radio and television spots, dealer's share of cooperative advertising and materials used in sales events.

Donations — All gifts given from the business operation to charity.

Telephone and Telegraph — For expenses incurred in the operation of the business.

Bad Debts — Uncollectable debts.

Delivery (Other than Wages) — All expenses incurred in the operation of delivery equipment; gas, tires, etc.

Insurance — Premiums paid to insure all assets against fire, theft, etc.

Taxes — All taxes on stock, fixtures, delivery equipment, etc.

Depreciation — All depreciation on furniture, fixtures, machinery and office equipment, delivery equipment, etc.

Credit Card Expense — Bank charges for processing credit card sales.

Interest on Borrowed Money — The amount of interest paid on borrowed money for all types of notes, loans.

Store and Shop Supplies — The costs of all supplies used in the operation of the store.

Legal and Accounting — The cost incurred for auditing, inventory count, collectors and legal consultation.

Computer Services — Any fees for outside computer services, plus all costs (excluding payroll) for establishing and maintaining a system in-house.

Dues and Subscriptions — Fees for memberships and subscriptions, and expenses for employee training.

Travel, Buying, Entertainment — All expenses incurred in business trips and the entertainment of guests.

Miscellaneous Services — All fees for services such as laundry, garbage disposal, snow removal, etc.

Unclassified — All expenses not classified under other headings.

Net Operating Profit — Return on sales before Other Income and Income Taxes, when expressed as a percent of Net Sales, indicates the percent return on each dollar of sales.

Other Income — Cash discounts earned, cash over or short, interest dividends, finance charges, commissions, tax allowances and rental and sundry income.

Net Profit (Before Income Tax) — The net return from the operation of the business.

Balance Sheet

The balance sheet is a statement of financial position at a given point in time; the Report presents year-ending balance sheets. The balance sheet equation is expressed as Assets equal Liabilities plus Net Worth.

Current Assets — Cash; notes receivable in the current year; accounts receivable (less reserve for doubtful accounts); merchandise inventories and other assets with a defined short-term life of one year — all prepaid expenses.

Investments — Assets with a long-term life such as stocks and bonds or real estate which are not needed to operate the business.

Fixed Assets — Assets with a long-term life which are needed to carry out a firm's normal business activities. The Financial Report includes only tangible assets at book value less accumulated depreciation. Included in addition to land, buildings and leasehold improvements are delivery equipment, machinery and office equipment, furniture, fixtures, etc.

Current Liabilities — All debts which are due within one year — accounts payable, current portion of notes payable, accrued payroll and other taxes, insurance, interest, etc.

Long-Term Liabilities — All debts, mortgages, and loans which mature or are due more than one year from the date of the balance sheet, deferred income taxes.

Net Worth — Total assets minus current and long-term liabilities equals net worth or the owner's equity in the business.

Financial Ratios
The financial position of a firm is determined from a review of its financial statements — the income statement and the balance sheet. The analysis of the financial performance of a firm views the interaction of the two financial statements through the measurement of proportions within the structure of the two statements. The proportions are tested by ratio analysis. Sixteen financial ratios are presented in this Financial Report.

Profit On Investment
—Computed by dividing Net Profit Before Taxes by Net Worth; expressed as a percentage.
—Measures the return on the owner's invested capital and is the modern criterion for profitability. Today's hardware retailers should program their operations to achieve a rate of Return-On-Investment of at least 15% after taxes.

Active Owner's Return
—Computed by adding Owner's Salary to Net Profit Before Taxes and then dividing by Net Worth; expressed as a percentage.
—Measures the total return to owners and is applicable to proprietorships, partnerships and small corporations. This ratio allows comparison between operators with different philosophies regarding salaries and profits.

Current Asset Ratio
—Computed by dividing Total Current Assets by Total Current Liabilities; expressed in "times".
—Measures the ability to pay short-term Debts with Assets that may be converted to cash within a period of time corresponding to the maturity of the claims. The traditionally accepted minimum is 2 to 1 or 2.0 times.

Quick Asset Ratio
—Computed by dividing Current Assets minus Inventory by Current Liabilities; expressed in "times".
—Measures the ability to pay Current Debts from Current Assets without relying on the sale of inventory. The traditionally accepted minimum is 1.0 times.

Total Debt To Tangible Net Worth
--The Leverage Ratio, computed by dividing Total Liabilities by Tangible Net Worth; expressed as a percentage.
—Measures the owner's investment in comparison to financing provided by creditors and gives an indication of a firm's ability to acquire more debt.

Stock Turn Times
—Computed by dividing Cost of Goods Sold by Average Inventory at Cost (Beginning Inventory plus Year-end Inventory divided by two); expressed in "times".
—Measures the actual physical turnover of the inventory. A low rate of inventory turnover indicates the liklihood that a portion of the book value of the inventory includes obsolete or unusable items. A high ratio indicates efficiency in buying and inventory control; however too high a ratio may indicate the loss of potential sales due to inadquate stocking. Retail hardware store operators should achieve three turns or more per year.

Sales to Inventory
—Computed by dividing Net Sales by Average Inventory; expressed in "times".
—Measures merchandising efficiency and supplements the Stock Turn ratio in determining whether proper inventory control is achieved through scheduled and balanced buying.

Average Inventory Per Sq. Ft. of Sales Area
—Computed by dividing Average Inventory by Square Feet of Sales Area; expressed in dollar value of inventory at cost.
—A rough measure of merchandising efficiency.

Net Sales to Accounts Receivable
—Computed by dividing Net Sales by Accounts Receivable; expressed in "times".
—Measures the sales tied up in accounts receivable. This ratio is the most meaningful when compared to previous years' ratios, due to individual dealer policies of granting their own credit.

Net Sales to Total Assets
—Computed by dividing Net Sales by Total Assets; expressed in "times".
—Measures the use of all Assets to produce Sales. A high ratio may indicate over-trading on assets. A low ratio may indicate excessive investment resulting in idle capacity.

Net Sales to Net Worth
—Computed by dividing Net Sales by Tangible Net Worth; expressed in "times".
—Measures the extent to which sales are supported by invested capital.

Net Sales to Working Capital
—Computed by dividing Net Sales by Working Capital (Current Assets minus Current Liabilities); expressed in "times".
—Measures the demand on working capital to support the sales volume. A high ratio may limit the firm's ability to meet day to day debts.

Sales Per Sq. Ft. — Selling Area
—Computed by dividing Net Sales by Square Feet of Sales Area; expressed in retail sales dollars.
—Measures sales productivity.

Sales Per Sq. Ft. — Total Area
—Computed by dividing Net Sales by Square Feet of Total Area including warehouse and outside storage area; expressed in retail sales dollars.
—Measures sales productivity and indicates the amount of sales generated by each square foot of the total facility.

Sales Per Person Employed
—Computed by dividing Net Sales by the Total Number of Employees; expressed in retail sales dollars.
—Measures the efficiency of personnel in producing sales and is the most useful when compared to past performance.

Sales Per Customer
—Computed by dividing Net Sales by the Total Number of Customer Transactions; expressed in retail sales dollars.
—Measures the average sale per transaction. This ratio gives an indication of the store personnel's ability to make add-on sales.

All Outlets

Income Statement Data	All Outlets	Low Profit Outlets	High Profit Outlets
Number of Outlets	327	79	81
Net Sales Volume	$1,371,983	$1,333,602	$1,158,667
Current Year's Sales vs. Previous Year*	+2.52%	-5.21%	-.82%
Gross Sales	101.52%	101.88%	101.72%
Less: Total Deductions	1.52	1.88	1.72
Net Sales	100.0%	100.00%	100.00%
Cost of Goods Sold	74.30	76.59	70.94
Margin	25.70	23.41	29.06
Payroll and Other Employee Expense			
Salaries — Owners, Officers, Managers	2.79	3.67	3.85
Salaries — Other Employees	10.34	9.90	9.88
Federal and State Payroll Taxes	.89	.86	.82
Group Insurance	.63	1.06	.38
Benefit Plans	.55	.20	.80
Total Payroll and Other Employee Expense	15.20	15.69	15.73
Occupancy Expense			
Heat, Light, Power, Water	.39	.42	.38
Repairs to Building	.22	.29	.28
Rent or Ownership in Real Estate**	1.76	2.20	1.83
Total Occupancy Expense	2.37	2.91	2.49
Other Costs of Doing Business			
Office Supplies and Postage	.42	.40	.41
Advertising	.97	1.09	.92
Donations	.04	.03	.06
Telephone and Telegraph	.29	.33	.25
Bad Debts	.53	.73	.36
Credit Card Expense	.03	.04	.03
Delivery (Other than Wages)	1.03	1.09	.75
Leasing Expenses (Non-Occupancy)	.07	.06	.11
Insurance (Other than Real Estate and Group)	.54	.57	.73
Taxes (Other than Real Estate and Payroll)	.37	.29	.38
Interest on Borrowed Money (Other than Mortgages)	1.54	2.36	.72
Depreciation (Other than Real Estate)	.57	.68	.54
Store and Shop Supplies	.21	.18	.16
Legal and Accounting	.30	.30	.36
Computer Services	.06	.07	.09
Dues and Subscriptions	.06	.07	.07
Travel, Buying, Entertainment	.17	.19	.13
Miscellaneous Services (Laundry, Disposal, Etc.)	.05	.03	.05
Unclassified	.7	.96	.51
Total Other Costs of Doing Business	8.04	9.47	6.63
Total Operating Expense	25.61	28.07	24.85
Net Operating Profit	.09	(4.66)	4.21
Other Income	2.39	1.82	3.61
Net Profit (Before Income Taxes)	2.48	(2.84)	7.82

*As reported to us by Lumer/Building Material Financial Report contributors.
**Ownership in Real Estate includes Taxes, Insurance and Depreciation on Land and Buildings and Interest on Mortgages.

All Outlets

Balance Sheet Data	All Outlets	Low Profit Outlets	High Profit Outlets
Total Dollar Assets	$597,468	$626,595	$584,376
	% of Total Assets		
Assets			
Cash and Equivalent	6.27	2.83	10.27
Notes and Contracts Receivable	3.83	1.61	6.92
Accounts Receivable	21.94	22.62	21.18
Merchandise Inventory (End of Year)	40.53	43.87	37.59
Other Current Assets	2.10	3.14	1.77
Total Current Assets	74.67	74.07	77.73
Stocks and Bonds	1.93	1.06	2.54
Real Estate (Not Used in Business)	2.30	3.97	2.60
Other Investments	4.31	4.05	3.58
Total Investments	8.54	9.08	8.72
Land (Owned and Used in Business)	2.35	1.76	1.81
Buildings (Owned and Used in Business less Depreciation)	6.87	7.10	4.72
Leasehold Improvements (Less Depreciation)	.72	.43	1.61
Furniture, Fixtures, Equipment (Owned and Used in Business less Depreciation)	3.48	4.12	2.60
Delivery Equipment (Owned and Used in Business less Depreciation)	2.72	2.88	2.34
Other Fixed Assets	.65	.56	.47
Total Fixed Assets	16.79	16.85	13.55
Total Assets	100.00%	100.00%	100.00%
Liabilities and Net Worth			
Accounts Payable	9.64	8.92	9.48
Notes Payable	10.79	17.36	6.79
Accrued Payroll Taxes	.33	.50	.50
Accrued Other Taxes	.72	.48	.72
Other Accrued Expenses	2.31	1.75	1.84
Other Current Liabilities	1.29	.63	1.76
Total Current Liabilities	25.08	29.64	21.09
Notes Due Partners/Officers	1.62	2.12	1.89
Mortgage Payable	5.05	8.16	4.70
Long Term Debt	11.78	12.47	7.66
Deferred Income Taxes	.16	(.01)	.57
Other Long Term Liabilities	1.01	.88	.41
Total Long Term Liabilities	19.62	23.62	15.23
Total Liabilities	44.70	53.26	36.32
Net Worth	55.30	46.74	63.68
Total Liabilities and Net Worth	100.00%	100.00%	100.00%
Financial Performance			
Profit on Investment	10.29%	(12.94)%	24.35%
Active Owner's Return	17.99%	(3.02)%	31.24%
Current Asset Ratio	2.98x	2.50x	3.69x
Quick Asset Ratio	1.36x	1.02x	1.90x
Total Debt to Tangible Net Worth	80.85%	113.89%	57.00%
Stock Turn Times	4.27x	3.66x	3.94x
Sales to Inventory Ratio	5.74x	4.77x	5.55x
Average Inventory per Sq. Ft. Sales Area	$102.33	$101.69	$74.37
Net Sales to Accounts Receivable	10.47x	9.41x	9.36x
Net Sales to Total Assets	2.30x	2.13x	1.98x
Net Sales to Net Worth	4.15x	4.55x	3.11x
Net Sales to Net Working Capital	4.63x	4.79x	3.50x
Other Operating Data			
Incoming Freight — % of Purchases	.20%	.26%	.27%
Credit Sales — % of Total Gross Sales	64.39%	69.84%	64.77%
Consumer Sales — % of Total Gross Sales	55.44%	55.62%	60.72%
Selling Area — Square Feet	4,430	5,296	3,748
Sales Per Square Foot — Selling Area	$309.70	$251.81	$309.14
Total Area — Square Feet	17,223	15,153	17,194
Sales Per Square Foot — Total Area	$79.66	$88.01	$67.39
Sales Per Person Employed	$113,042	$105,381	$107,113
Sales Per Customer	$24.26	$35.93	$39.45

Sales Volume Size

Income Statement Data	Sales Under $500,000	$500,000 To $999,999	$1,000,000 To $1,999,999	Sales $2,000,000 Or More
Number of Outlets	53	93	120	61
Net Sales Volume	$355,636	$738,000	$1,271,182	$3,419,903
Current Year's Sales vs. Previous Year*	+ 1.34%	-6.83%	+ 1.51%	+ 6.57%
Gross Sales	101.23%	102.42%	101.16%	101.52%
Less: Total Deductions	1.23	2.42	1.16	1.52
Net Sales	100.00%	100.00%	100.00%	100.00%
Cost of Goods Sold	70.66	72.46	74.21	75.30
Margin	29.34	27.54	25.79	24.70
Payroll and Other Employee Expense				
Salaries — Owners, Officers, Managers	5.59	3.84	2.79	2.20
Salaries — Other Employees	8.29	10.43	10.44	10.29
Federal and State Payroll Taxes	1.12	1.13	1.03	.69
Group Insurance	.52	.46	.43	.85
Benefit Plans	.45	.45	.57	.58
Total Payroll and Other Employee Expense	15.97	16.31	15.26	14.61
Occupancy Expense				
Heat, Light, Power, Water	.72	.54	.42	.28
Repairs to Building	.26	.30	.23	.19
Rent or Ownership in Real Estate**	2.18	2.16	1.98	1.47
Total Occupancy Expense	3.16	3.00	2.63	1.94
Other Costs of Doing Business				
Office Supplies and Postage	.52	.40	.42	.42
Advertising	1.12	.94	1.17	.82
Donations	.07	.03	.05	.04
Telephone and Telegraph	.34	.35	.34	.24
Bad Debts	.30	.77	.58	.44
Credit Card Expense	.00	.02	.05	.03
Delivery (Other than Wages)	.91	1.40	.98	.96
Leasing Expenses (Non-Occupancy)	.03	.01	.06	.10
Insurance (Other than Real Estate and Group)	.84	.80	.50	.47
Taxes (Other than Real Estate and Payroll)	.25	.27	.38	.42
Interest on Borrowed Money (Other than Mortgages)	1.18	1.71	2.17	1.06
Depreciation (Other than Real Estate)	.77	.58	.49	.61
Store and Shop Supplies	.48	.12	.16	.25
Legal and Accounting	.33	.28	.30	.30
Computer Services	.03	.04	.08	.06
Dues and Subscriptions	.11	.06	.06	.05
Travel, Buying, Entertainment	.17	.13	.20	.17
Miscellaneous Services (Laundry, Disposal, etc.)	.07	.07	.05	.04
Unclassified	.53	.76	.34	1.14
Total Other Costs of Doing Business	8.05	8.74	8.38	7.62
Total Operating Expense	27.18	28.05	26.27	24.17
Net Operating Profit	2.16	(.51)	(.48)	.53
Other Income	2.85	2.89	2.53	2.07
Net Profit (Before Income Taxes)	5.01	2.38	2.05	2.60

*As Reported to us by Lumber/Building Material Financial Report contributors.

**Ownership in Real Estate includes Taxes, Insurance and Depreciation on Land and Buildings and Interest on Mortgages.

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Sales Volume Size

Balance Sheet Data	Sales Under $500,000	$500,000 To $999,999	$1,000,000 To $1,999,999	Sales $2,000,000 Or More
Total Dollar Assets	$208,711	$407,621	$608,622	$1,202,736
Assets		% of Total Assets		
Cash and Equivalent	7.68	6.88	5.36	6.64
Notes and Contracts Receivable	2.75	3.80	3.17	4.65
Accounts Receivable	14.37	18.76	21.66	25.01
Merchandise Inventory (End of Year)	44.10	39.08	41.04	40.26
Other Current Assets	.54	2.11	2.36	2.06
Total Current Assets	69.44	70.63	73.59	78.62
Stocks and Bonds	3.80	2.62	1.58	1.65
Real Estate (Not Used in Business)	4.35	7.36	1.08	.59
Other Investments	1.97	2.63	6.15	3.69
Total Investments	10.12	12.61	8.81	5.93
Land (Owned and Used in Business)	2.37	2.92	2.24	2.16
Buildings (Owned and Used in Business less Depreciation)	11.31	7.75	8.32	4.30
Leasehold Improvements (Less Depreciation)	.77	.41	.69	.90
Furniture, Fixtures, Equipment (Owned and Used in Business less Depreciation)	2.70	2.18	2.79	4.95
Delivery Equipment (Owned and Used in Business less Depreciation)	2.75	2.81	2.75	2.64
Other Fixed Assets	.54	.69	.81	.50
Total Fixed Assets	20.44	16.76	17.60	15.45
Total Assets	100.00%	100.00%	100.00%	100.00%
Liabilities And Net Worth				
Accounts Payable	9.88	9.15	6.83	12.65
Notes Payable	4.54	13.75	9.46	11.52
Accrued Payroll Taxes	.83	.27	.28	.34
Accrued Other Taxes	1.10	.60	.48	.97
Other Accrued Expenses	.39	1.68	2.66	2.57
Other Current Liabilities	1.46	1.32	.84	1.71
Total Current Liabilities	18.20	26.77	20.55	29.76
Notes Due Partners/Officers	1.96	2.44	1.87	.90
Mortgage Payable	6.67	8.63	5.25	2.76
Long Term Debt	10.93	8.92	19.82	5.38
Deferred Income Taxes	.27	.16	(.02)	.33
Other Long Term Liabilities	2.26	.17	.89	1.38
Total Long Term Liabilities	22.09	20.32	27.81	10.75
Total Liabilities	40.29	47.09	48.36	40.51
Net Worth	59.71	52.91	51.64	59.49
Total Liabilities And Net Worth	100.00%	100.00%	100.00%	100.00%
Financial Performance				
Profit on Investment	14.30%	8.13%	8.27%	12.43%
Active Owner's Return	22.64%	16.76%	16.37%	19.26%
Current Asset Ratio	3.81x	2.64x	3.58x	2.64x
Quick Asset Ratio	1.39x	1.18x	1.58x	1.29x
Total Debt to Tangible Net Worth	67.49%	88.95%	93.64%	68.09%
Stock Turn Times	2.80x	3.38x	3.87x	5.35x
Sales to Inventory Ratio	3.97x	4.66x	5.21x	7.10x
Average Inventory per Sq. Ft. Sales Area	$38.96	$78.09	$128.69	$128.39
Net Sales to Accounts Receivable	11.86x	9.65x	9.64x	11.37x
Net Sales to Total Assets	1.70x	1.81x	2.09x	2.84x
Net Sales to Net Worth	2.85x	3.42x	4.04x	4.78x
Net Sales to Net Working Capital	3.33x	4.13x	3.94x	5.82x
Other Operating Data				
Incoming Freight — % of Purchases	.46%	.44%	.15%	.13%
Credit Sales — % of Total Gross Sales	66.15%	66.35%	59.33%	67.26%
Consumer Sales — % of Total Gross Sales	75.13%	59.82%	49.43%	43.46%
Selling Area — Square Feet	3,538	3,195	4,984	5,833
Sales Per Square Foot — Selling Area	$100.52	$230.98	$255.05	$586.30
Total Area — Square Feet	11,329	15,518	19,355	22,045
Sales Per Square Foot — Total Area	$31.39	$47.56	$65.68	$155.13
Sales Per Person Employed	$71,545	$96,062	$113,548	$128,742
Sales Per Customer	$22.65	$55.68	$51.20	$14.58

Sales Floor Size

Income Statement Data	Sales Area Under 3,000 Sq. Ft.	3,000 Sq. Ft. To 4,999 Sq. Ft.	Sales Area 5,000 Sq. Ft. or More
Number of Outlets	71	98	124
Net Sales Volume	$896,526	$1,077,545	$1,889,588
Current Year's Sales vs. Previous Year*	-3.02%	+5.81%	+3.34%
Gross Sales	101.35%	101.98%	100.92%
Less: Total Deductions	1.35	1.98	.92
Net Sales	100.00%	100.00%	100.00%
Cost of Goods Sold	73.80	74.91	74.16
Margin	26.20	25.09	25.84
Payroll and Other Employee Expense			
Salaries — Owners, Officers, Managers	3.55	2.91	2.54
Salaries — Other Employees	10.20	9.93	10.54
Federal and State Payroll Taxes	1.02	.97	.85
Group Insurance	.38	.38	.82
Benefit Plans	.47	.62	.59
Total Payroll and Other Employee Expense	15.62	14.81	15.34
Occupancy Expense			
Heat, Light, Power, Water	.39	.38	.38
Repairs to Building	.26	.23	.22
Rent or Ownership in Real Estate**	1.61	1.55	1.84
Total Occupancy Expense	2.26	2.16	2.44
Other Costs of Doing Business			
Office Supplies and Postage	.41	.48	.42
Advertising	.67	1.06	1.00
Donations	.03	.05	.03
Telephone and Telegraph	.25	.32	.28
Bad Debts	.54	.64	.44
Credit Card Expense	.02	.03	.04
Delivery (Other than Wages)	1.12	1.16	.94
Leasing Expenses (Non-Occupancy)	.08	.02	.08
Insurance (Other than Real Estate and Group)	.78	.56	.48
Taxes (Other than Real Estate and Payroll)	.31	.31	.47
Interest on Borrowed Money (Other than Mortgages)	1.67	1.02	1.75
Depreciation (Other than Real Estate)	.77	.54	.53
Store and Shop Supplies	.22	.06	.27
Legal and Accounting	.35	.21	.33
Computer Services	.03	.03	.08
Dues and Subscriptions	.09	.06	.05
Travel, Buying, Entertainment	.16	.13	.20
Miscellaneous Services (Laundry, Disposal, etc.)	.04	.05	.03
Unclassified	.61	.46	.87
Total Other Costs of Doing Business	8.15	7.19	8.29
Total Operating Expense	26.03	24.16	26.07
Net Operating Profit	.17	.93	(.23)
Other Income	2.14	2.20	2.41
Net Profit (Before Income Taxes)	2.31	3.13	2.18

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Sales Floor Size

Balance Sheet Data	Sales Area Under 3,000 Sq. Ft.	3,000 Sq. Ft. To 4,999 Sq. Ft.	Sales Area 5,000 Sq. Ft. Or More
Total Dollar Assets	$387,847	$467,077	$780,276
Assets		% of Total Assets	
Cash and Equivalent	10.67	7.05	4.63
Notes and Contracts Receivable	3.43	2.39	3.79
Accounts Receivable	21.40	21.09	23.84
Merchandise Inventory (End of Year)	38.53	39.75	41.66
Other Current Assets	2.47	1.58	2.10
Total Current Assets	76.50	71.86	76.02
Stocks and Bonds	3.14	1.64	1.67
Real Estate (Not Used in Business)	2.15	1.92	.83
Other Investments	2.29	5.46	4.77
Total Investments	7.58	9.02	7.27
Land (Owned and Used in Business)	2.11	3.46	2.00
Buildings (Owned and Used in Business less Depreciation)	6.43	8.36	6.38
Leasehold Improvements (Less Depreciation)	.58	.36	1.04
Furniture, Fixtures, Equipment (Owned and Used in Business less Depreciation)	2.77	3.48	4.07
Delivery Equipment (Owned and Used in Business less Depreciation	3.22	2.58	2.56
Other Fixed Assets	.81	.88	.66
Total Fixed Assets	15.92	19.12	16.71
Total Assets	100.00%	100.00%	100.00%
Liabilities And Net Worth			
Accounts Payable	11.30	9.38	9.15
Notes Payable	15.50	8.87	10.62
Accrued Payroll Taxes	.41	.18	.43
Accrued Other Taxes	.91	.88	.53
Other Accrued Expenses	1.49	3.11	2.54
Other Current Liabilities	2.16	1.00	1.19
Total Current Liabilities	31.77	23.42	24.46
Notes Due Partners/Officers	2.32	1.74	1.26
Mortgage Payable	4.39	2.65	4.88
Long Term Debt	9.28	7.15	14.72
Deferred Income Taxes	.15	.17	.20
Other Long Term Liabilities	.55	.10	.78
Total Long Term Liabilities	16.69	11.81	21.84
Total Liabilities	48.46	35.23	46.30
Net Worth	51.54	64.77	53.70
Total Liabilities And Net Worth	100.00%	100.00%	100.00%
Financial Performance			
Profit on Investment	10.35%	11.15%	9.83%
Active Owner's Return	20.68%	18.77%	17.05%
Current Asset Ratio	2.41x	3.07x	3.11x
Quick Asset Ratio	1.20x	1.37x	1.40x
Total Debt to Tangible Net Worth	93.98%	54.42%	86.18%
Stock Turn Times	4.48x	4.41x	4.33x
Sales to Inventory Ratio	6.08x	5.89x	5.83x
Average Inventory per Sq. Ft. Sales Area	$134.05	$102.42	$96.35
Net Sales to Accounts Receivable	10.80x	10.94x	10.16x
Net Sales to Total Assets	2.31x	2.31x	2.42x
Net Sales to Net Worth	4.48x	3.56x	4.51x
Net Sales to Net Working Capital	5.17x	4.76x	4.70x
Other Operating Data			
Incoming Freight — % of Purchases	.11%	.17%	.14%
Credit Sales — % of Total Gross Sales	68.25%	63.39%	63.59%
Consumer Sales — % of Total Gross Sales	56.14%	49.28%	54.23%
Selling Area — Square Feet	1,975	3,818	6,320
Sales Per Square Foot — Selling Area	$453.94	$282.23	$298.98
Total Area — Square Feet	13,256	14,817	21,356
Sales Per Square Foot — Total Area	$67.63	$72.72	$88.48
Sales Per Person Employed	$105,737	$110,691	$115,928
Sales Per Customer	$46.49	$65.70	$13.74

Trade Area Size

Income Statement Data	S.M.S.A.	Cities 10,000 To 50,000	Rural Areas Under 10,000
Number of Outlets	47	94	180
Net Sales Volume	$1,803,052	$1,240,027	$1,340,240
Current Year's Sales vs. Previous Year*	-2.25%	+.31%	+5.32%
Net Sales	100.00%	100.00%	100.00%
Cost of Goods Sold	72.65	74.45	74.67
Margin	27.35	25.55	25.33
Payroll and Other Employee Expense			
Salaries — Owners, Officers, Managers	3.25	2.06	3.01
Salaries — Other Employees	11.00	11.53	9.58
Federal and State Payroll Taxes	.88	1.00	.85
Group Insurance	.37	.44	82
Benefit Plans	.89	.63	.40
Total Payroll and Other Employee Expense	16.39	15.66	14.66
Occupancy Expense			
Heat, Light, Power, Water	.34	.44	.38
Repairs to Building	.26	.24	.20
Rent or Ownership in Real Estate**	1.62	1.72	1.88
Total Occupancy Expense	2.22	2.40	2.46
Other Costs of Doing Business			
Advertising	1.12	1.14	.85
Depreciation (Other than Real Estate)	.45	.54	.62
Insurance (Other than Real Estate or Group)	.53	.45	.60
Taxes (Other than Real Estate or Payroll)	.32	.48	.35
All Other Expenses	4.49	6.29	5.65
Total Other Costs of Doing Business	6.91	8.90	8.07
Total Operating Expense	25.52	26.96	25.19
Net Operating Profit	1.83	(1.41)	.14
Other Income	2.38	3.06	2.08
Net Profit (Before Income Taxes)	4.21	1.65	2.22
Financial Performance			
Profit on Investment	16.94%	6.91%	9.20%
Active Owner's Return	24.93%	12.40%	17.83%
Current Asset Ratio	3.33x	3.43x	2.71x
Quick Asset Ratio	1.69x	1.62x	1.17x
Total Debt to Tangible Net Worth	61.58%	101.24%	76.07%
Stock Turn Times	4.81x	4.13x	4.19x
Sales to Inventory Ratio	6.63x	5.55x	5.61x
Average Inventory per Sq. Ft. Sales Area	$95.41	$154.03	$89.26
Net Sales to Accounts Receivable	11.06x	9.63x	10.80x
Net Sales to Total Assets	2.49x	2.08x	2.35x
Net Sales to Net Worth	4.02x	4.19x	4.14x
Net Sales to Net Working Capital	4.58x	4.11x	4.95x
Other Operating Data			
Incoming Freight — % of Purchases	.08%	.31%	.15%
Credit Sales — % of Total Gross Sales	65.73%	61.43%	65.30%
Consumer Sales — % of Total Gross Sales	44.40%	50.38%	59.47%
Selling Area — Square Feet	4,450	5,111	4,089
Sales Per Square Foot — Selling Area	$405.18	$242.62	$327.77
Total Area — Square Feet	17,008	18,470	16,625
Sales Per Square Foot — Total Area	$106.01	$67.14	$80.62
Sales Per Person Employed	$118,986	$112,618	$111,396
Sales Per Customer	$54.84	$11.01	$68.59

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Outlet Location

Income Statement Data	Downtown	Suburban	Rural
Number of Outlets	97	176	30
Net Sales Volume	+827,004	$1,681,575	$1,463,077
Current Year's Sales vs. Previous Year*	+ 1.18%	+ 3.88%	-4.97%
Net Sales	100.00%	100.00%	100.00%
Cost of Goods Sold	73.00	74.56	75.34
Margin	27.00	25.44	24.66
Payroll and Other Employee Expense			
Salaries — Owners, Officers, Managers	4.96	2.03	3.81
Salaries — Other Employees	9.29	10.80	9.02
Federal and State Payroll Taxes	1.05	.84	.84
Group Insurance	.47	.70	.65
Benefit Plans	.29	.66	.32
Total Payroll and Other Employee Expense	16.06	15.03	14.64
Occupancy Expense			
Heat, Light, Power, Water	.45	.34	.52
Repairs to Building	.34	.19	.22
Rent or Ownership in Real Estate**	1.84	1.63	2.22
Total Occupancy Expense	2.63	2.16	2.96
Other Costs of Doing Business			
Advertising	1.12	.90	.88
Depreciation (Other than Real Estate)	.55	.55	.73
Insurance (Other than Real Estate or Group)	.57	.50	.71
Taxes (Other than Real Estate or Payroll)	.33	.42	.34
All Other Expenses	5.48	5.61	6.48
Total Other Costs of Doing Business	8.05	7.98	9.14
Total Operating Expense	26.74	25.17	26.74
Net Operating Profit	.26	.27	(2.08)
Other Income	2.62	2.48	1.37
Net Profit (Before Income Taxes)	2.88	2.75	(.71)
Financial Performance			
Profit on Investment	10.14%	11.93%	(3.27)%
Active Owner's Return	20.33%	18.14%	7.43%
Current Asset Ratio	2.87x	3.08x	2.25x
Quick Asset Ratio	1.18x	1.52x	.89x
Total Debt to Tangible Net Worth	72.42%	79.61%	-104.58%
Stock Turn Times	3.62x	4.84x	3.51x
Sales to Inventory Ratio	4.96x	6.50x	4.65x
Average Inventory per Sq. Ft. Sales Area	$82.28	$120.33	$77.79
Net Sales to Accounts Receivable	10.80x	10.27x	9.72x
Net Sales to Total Assets	2.04x	2.42x	2.26x
Net Sales to Net Worth	3.52x	4.34x	4.61x
Net Sales to Net Working Capital	4.41x	4.75x	5.20x
Other Operating Data			
Incoming Freight — % of Purchases	.26%	.12%	.34%
Credit Sales — % of Total Gross Sales	71.44%	64.18%	65.26%
Consumer Sales — % of Total Gross Sales	60.18%	49.37%	60.40%
Selling Area — Square Feet	3,980	4,711	4,371
Sales Per Square Foot — Selling Area	$207.79	$356.95	$334.80
Total Area — Square Feet	11,225	18,923	22,529
Sales Per Square Foot — Total Area	$73.68	$88.86	$64.94
Sales Per Person Employed	$107,760	$118,030	$102,198
Sales Per Customer	$30.16	$21.49	$49.02

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Number of Outlets

Income Statement Data	Single Outlet Business	Multiple Outlets Business
Number of Outlets	135	192
Net Sales Volume	$1,416,175	$1,340,911
Current Year's Sales vs. Previous Year*	+ 2.94%	+ 2.23 %
Net Sales	100.00%	100.00%
Cost of Goods Sold	73.53	74.87
Margin	26.47	25.13
Payroll and Other Employee Expense		
Salaries — Owners, Officers, Managers	4.00	1.90
Salaries — Other Employees	9.52	10.86
Federal and State Payroll Taxes	.88	.90
Group Insurance	.42	.79
Benefit Plans	.61	.51
Total Payroll and Other Employee Expense	15.43	14.96
Occupancy Expense		
Heat, Light, Power, Water	.40	.37
Repairs to Building	.26	.19
Rent or Ownership in Real Estate**	1.92	1.68
Total Occupancy Expense	2.58	2.24
Other Costs of Doing Business		
Advertising	1.04	.92
Depreciation (Other than Real Estate)	.62	.54
Insurance (Other than Real Estate or Group)	.77	.38
Taxes (Other than Real Estate or Payroll)	.44	.33
All Other Expenses	4.93	6.08
Total Other Costs of Doing Business	7.80	8.25
Total Operating Expense	25.81	25.45
Net Operating Profit	.66	(.32)
Other Income	2.21	2.51
Net Profit (Before Income Taxes)	2.87	2.19
Financial Performance		
Profit on Investment	11.25%	9.51%
Active Owner's Return	23.05%	13.81%
Current Asset Ratio	3.07x	2.90x
Quick Asset Ratio	1.43x	1.31x
Total Debt to Tangible Net Worth	77.56%	83.57%
Stock Turn Times	3.87x	4.62x
Sales to Inventory Ratio	5.26x	6.16x
Average Inventory per Sq. Ft. Sales Area	$58.41	$271.94
Net Sales to Accounts Receivable	10.20x	10.67x
Net Sales to Total Assets	2.20x	2.37x
Net Sales to Net Worth	3.91x	4.36x
Net Sales to Net Working Capital	4.14x	5.08x
Other Operating Data		
Incoming Freight — % of Purchases	.38%	.07%
Credit Sales — % of Total Gross Sales	62.29%	65.96%
Consumer Sales — % of Total Gross Sales	61.78%	50.98%
Selling Area — Square Feet	4,364	4,478
Sales Per Square Foot — Selling Area	$324.51	$299.44
Total Area — Square Feet	17,473	17,044
Sales Per Square Foot — Total Area	$81.05	$78.67
Sales Per Person Employed	$109,653	$115,949
Sales Per Customer	$36.28	$20.01

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Strategic Profit Model

The Strategic Profit Model can be an excellent management tool for lumber/building material retailers. The Model combines the principal elements of a firm's operating statement and balance sheet into a single profit planning equation, evaluating operating performance on the most important criteria — Return on Net Worth.

The Strategic Profit Model clearly identifies, through the use of financial ratio analysis, the three major operational areas that determine the rate of return on net worth: profit margin, asset turnover and leverage.

Several elements that can be controlled by management to improve the level of operational performance are:

Profit Margin

Sales — Increase sales through better displays and advertising, more promotions, addition of new lines, etc.

Cost of Goods Sold — Improve Gross Margin through variable pricing, efficient buying, etc.

Expenses — Trimming expenses is difficult in view of today's high inflation, labor costs, occupancy expense, etc.; however, carefully review each item of expense for areas of cost savings.

Other Income — Take advantage of cash discounts, earnings from revolving or installment credit programs and other investments such as stock ownership.

Asset Turnover

Inventory — Decrease inventory level through a careful review of the levels of all items, trim slow moving items, eliminate obsolete items.

Accounts Receivable — Review status of accounts; if excessively high without the use of a finance charge, customers are operating on the firm's money.

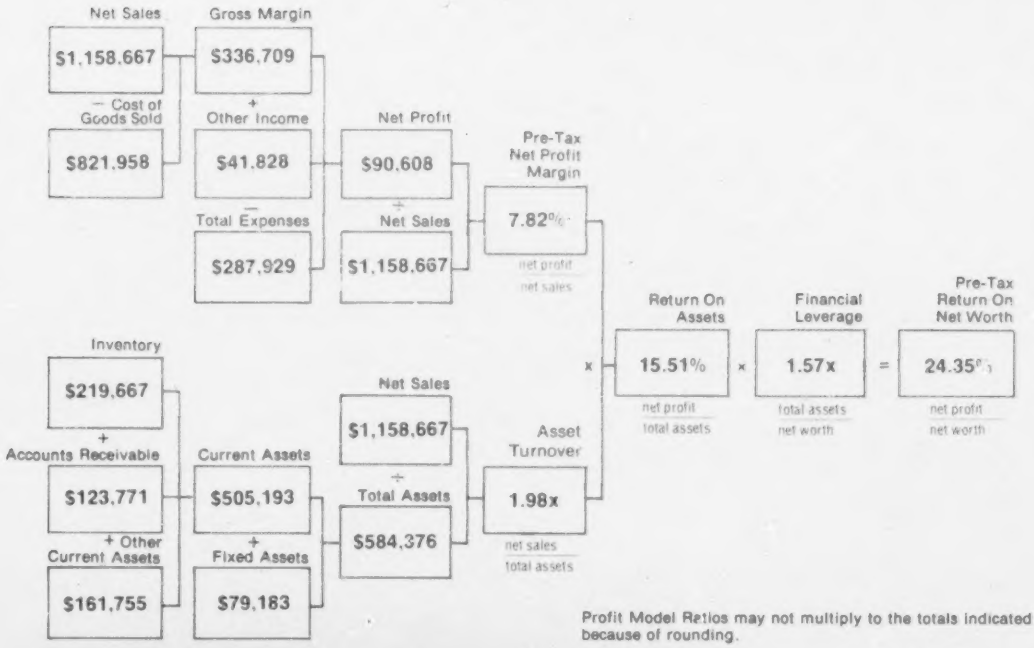
Fixed Assets — Divide Net Sales by Fixed Assets; a substantially lower than industry average ratio indicates excessive investment resulting in idle capacity.

Leverage

The amount of borrowed funds has a number of major implications 1) creditors look to owner supplied funds to provide a margin of safety; 2) by raising funds through debt, owners gain the benefit of maintaining control of the firm with a limited investment and 3) if the firm earns more on borrowed funds than it pays in interest, return to owners is magnified.

Presented below is the Strategic Profit Model for the High Profit Outlets category. Retailers interested in improving their performance should carefully review this model, as it represents the level of excellence achieved by industry leaders.

High-Profit Outlets



Profit Model Ratios may not multiply to the totals indicated because of rounding.

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Departmental Sales

The Departmental Sales section of the Financial Report offers a variety of information for thirteen major departments carried in the hardline industry's retail outlets.

Departmental Contributions
Shown for each department are the percent of firms handling, the share of net sales, sales floor space, inventory, cost of goods sold and dollar productivity per square foot of sales area. These data are for **Handling Firms Only.** All outlets participating in the survey that do not carry a certain department were not included in the computation of the average data for that department.

As an example to help understand the meaning of the **Handling Firms Only** data, suppose the Lawn and Garden Department in the Financial Report shows 90% of the reporting outlets have a Lawn and Garden Department. The data shown for the Lawn and Garden Department are only for the 90% of the outlets who carry Lawn and Garden Equipment. Thus, **Handling Firms Only** data enable an operator to compare a specific department's data with the average of other operators who also carry that department.

The Financial Report also presents an **Average Outlet Profile.** This profile shows data for outlets handling all departments and allows a comparison of the relationships among departments within a single operation.

But what of an outlet that does not carry all the major departments? How can the relationships of only carried departments be compared to a total store industry average? The necessary data are contained in the Report — only a simple computation is required.

First, for each department carried, add the industry average percent of Net Sales. The sum of these percentages is then divided into each individual departmental percent. The resulting percentages are the **Average Outlet Profile** for a lumber/building material outlet carrying only these departments.

As an example, a lumber/building material outlet carries only four departments — Hardware, Hand and Power Tools, Paint and Sundries and Lumber/Building Materials.

Assume The Financial Report indicates percent of Net Sales for handling firms for each department to be:

Hardware	15.0%
Hand and Power Tools	10.0%
Paint and Sundries	20.0%
Lumber/Building Materials	65.0%

The total of these percents equals 110.0. Now divide the total (110.0%) into each of the individual department's percent:

Hardware	15.0 / 110.0	= 13.6%
Hand and Power Tools	10.0 / 110.0	= 9.1%
Paint and Sundries	20.0 / 110.0	= 18.2%
Lumber/Building Materials	65.0 / 110.0	= 59.1%

The resulting percentages' total should equal 100.0% and are the **Average Outlet Profile** for an outlet handling only Hardware, Hand and Power Tools, Paint and Sundries, and Lumber/Building Materials. This same procedure can be followed to determine the Average Outlet Profile for the percent of sales floor space, inventory and cost of goods sold.

Productivity
There are a number of ways in which to evaluate departmental performance including margin, turnover, sales productivity and margin contribution. The table presented on the following page examines these departmental evaluation criteria.

The first evaluative measure is departmental gross margin.

On the basis of margin alone, the following departments would be considered high performing departments: paint & paint sundries and hardware. Margin evaluations alone would indicate major appliances & home entertainment, automotive supplies, housewares and sporting goods & outdoor equipment to be below average performance.

An additional measure is the sales to inventory ratio. On the basis of this ratio alone, the lumber and building material departments highly exceed all the other department averages.

An excellent way for lumber/building material outlet operators to evaluate departmental performance is through the concept of gross margin return on inventory investment or GMROI. GMROI considers both margin and turnover. GMROI is computed by taking the margin percentage times the sales to inventory ratio. Below, GMROI is expressed as an index. Lawn and Garden's GMROI, for example, is 1.23 which means $1.23 in margin is returned for each $1.00 invested in lawn and garden inventory. GMROI of 1.23 is computed by taking margin (27.9%) times the sales to inventory ratio (4.4x), (27.9% x 4.4 x = 1.23). Resultant GMROI figures give lumber/building material outlet operators ways to measure departmental performance across diverse merchandise lines. Traditional high margin, low turnover departments may be compared with traditional low margin, high turnover departments.

An additional evaluative measure shown on the next page is sales per square foot of sales area. Individual outlet operators may utilize other evaluations such as profit on sales or return on investment by department. Nearly all departmental evaluation methods rely on some type of inventory control system enabling operators to measure sales and purchases at least at the departmental level.

Departmental Contribution

Department	Handling Firms Only: % Handling	% of Net Sales	% of Sales Floor	% of Inventory	% of Cost of Goods Sold	$ Sales Per Sq. Ft. Sales Area	Average Outlet Profile: % of Net Sales	% of Sales Floor	% of Inventory	% of Cost of Goods Sold
Hardware	100.0	8.5	20.5	11.2	7.8	141.33	8.4	20.3	11.1	7.7
Hand & Power Tools	87.8	3.3	9.3	3.9	3.1	125.23	2.9	8.2	3.4	2.7
Plumbing, Heating and Cooling	86.4	5.2	10.7	6.1	4.9	157.18	4.5	9.2	5.3	4.2
Electrical Supplies	84.5	4.0	9.4	4.4	3.8	141.63	3.4	7.9	3.7	3.2
Paint & Paint Sundries	92.5	7.1	16.5	9.3	6.2	137.04	6.6	15.3	8.6	5.7
Lumber	100.0	31.2	NA	24.5	32.6	NA	30.6	NA	24.0	32.0
Building Materials	100.0	35.8	27.4	33.2	36.8	459.24	35.0	26.8	32.4	35.9
Lawn & Garden	54.9	3.1	7.1	4.4	3.3	136.79	1.7	3.9	2.4	1.8
Housewares	18.8	1.6	4.8	2.1	1.6	130.23	.3	.9	.4	.3
Automotive Supplies	6.1	1.6	1.6	1.6	1.6	129.42	.1	.1	.1	.1
Major Appliances & Home Entertainment	29.1	3.1	3.4	4.8	3.4	268.09	.9	1.0	1.4	1.0
Sporting Goods & Outdoor Equipment	11.7	1.7	3.4	1.7	1.7	92.18	.2	.4	.2	.2
Other Departments	47.9	11.3	12.5	14.6	10.9	242.66	5.4	6.0	7.0	5.2
							100.0	100.0	100.0	100.0

Productivity

Department	Typical Outlet Profile: Gross Margin %	Sales To Inventory Ratio	GMROI
Hardware	35.1	4.6x	1.61
Hand & Power Tools	31.7	5.3x	1.68
Plumbing, Heating & Cooling	33.0	5.2x	1.72
Electrical Supplies	33.8	5.6x	1.89
Paint & Paint Sundries	39.0	4.6x	1.79
Lumber	24.3	7.6x	1.85
Building Materials	25.9	6.4x	1.66
Lawn & Garden	27.9	4.4x	1.23
Housewares	21.4	4.8x	1.03
Automotive Supplies	21.1	4.8x	1.01
Major Appliances & Home Entertainment	20.2	4.0x	.81
Sporting Goods & Outdoor Equipment	21.8	5.3x	1.16
Other Departments	29.5	4.7x	1.39

New Outlet Data

To determine the feasibility of a new consumer-oriented lumber/building material outlet four distinct planning phases are required:

—Preliminary Financial Analysis
—Market Analysis
—Formal Financial Analysis
—Development of Outlet Image

Phase I

As the ultimate criterion of feasibility for a proposed lumber/building material outlet will be profitability, the planning process should begin with a preliminary financial analysis.

The investment required for a new retail outlet can range between $25 to $60 per square foot, depending on locality, size, occupancy position and personal preferences.

Based on the desired size of the operation, utilize the industry operating averages presented in NRHA's Lumber/Building Materials Financial Report to estimate sales volumes, gross margins, salaries and other costs of doing business to project Net Profits and Return on Investment for the proposed operation. An important fact to remember is there is a direct correlation between the square feet of sales area, average dollar inventory and the attainable sales volumes.

If the preliminary financial analysis meets predetermined individual requirements in attainable salary levels, Net Profit and Return on Investment, the second phase of planning may be initiated.

Phase II

Site Location
The market area to be served by the proposed home center operation will be primarily determined by the selected site location. Nine major aspects of varying importance determine the worth of a given retail home center location. These aspects are listed below.

Shopping Pull — Businesses in the area which would help draw consumers to the area.

Parking Facilities — Adequate parking requires two to two and a half square feet of parking area for every square foot of selling area.

Walk-In Traffic
Traffic Count and Patterns
Accessibility
Visibility
Congestion

Shopping Ease — The ability for the consumer to get out of the outlet from the point of check-out to his or her auto with a large item.

Ingress and Egress — The ease with which customers can drive to or from the street to the parking area.

To select the best location, each prospective site should be assessed on the nine aspects to determine overall worth as a retail location. A subjective analysis of all aspects for each potential site available combined with an analysis of the cost for property and improvements will provide the basis for selecting the prime site location(s) for further analysis.

Primary Trade Area
After the selections of site(s), for the purpose of analysis it is necessary to bring the market area to be served to manageable proportions. Therefore a Primary Trade Area for the selected site location must be defined. The Primary Trade Area represents the geographical boundries from which the majority of do-it-yourself consumer business for the proposed operation will be derived. These geographical boundries of the Primary Trade Area are affected by many variables. The most influencing variables are the proposed operation's size and merchandise mix, number of consuming residents required to support the operation, driving time to site location, the proximity of retail activity concentrations and natural or man-made barriers.

Size — The ability to draw consumers from a distance to a retail outlet is directly related to the size of the display area and the number, depth and breadth of departmental lines carried.

Number of Consumers — A 2,500 square foot outlet requires 7,500 to 10,000 consuming residents; a 5,000 square foot outlet requires 15,000 to 20,000 consuming residents.

Driving Time — Typically a 2,500 square foot outlet can draw consumers within a 5 to 10 minutes driving time, a 5,000 square foot store drawing within 10 to 15 minutes driving time.

Other Retail Stores — Proximity to highly active retail areas helps to share the burden of drawing consumers to the area for shopping purposes.

Barriers—Barriers affecting accessibility to a selected site location can dramatically alter the boundries of the Primary Trade Area.

The feasibility of a new outlet within a given Primary Trade Area is dependent on two major factors, the demographic characteristics of the consumers and the number and strength of the competitors.

Consumer Analysis
From past NRHA research it has been learned that demographic variables relating to population growth rate, income levels and incidence of owner-occupied housing are the most critical variables in predicting a consumer's propensity to spend on hardlines.

Population Growth Rate — A viable environment for a new lumber/building material outlet requires that the Primary Trade Area experience a minimum of .5 to 1.0 percent annual increase in population with the preferred rate being 2.0 percent or more.

Income Levels — Consumers with middle to upper-middle income have the greatest propensity to purchase hardlines, lumber and building materials.

Type of Housing — Consumers who own their own homes will spend as much as 4 to 5 times more per year for hardlines, lumber and building materials than renters, mobile home or condominium owners.

Competitive Analysis
Although within a given Primary Trade Area consumer demographic variables may indicate a healthy environment for a new outlet, feasibility for the proposed operation cannot be determined without an analysis of the competition.

Depending on merchandise mix, primary hardline and lumber/building material sales represent approximately 70 to 80 percent of the total sales volume for an average consumer-oriented lumber/building material outlet. Primary hardlines include: hardware, tools, electrical and plumbing. As the primary hardlines and lumber/building materials represent the substantial majority of sales for an outlet, an analysis to determine the feasibility of a new outlet should focus on these lines.

Retail outlets which carry competitive lines and would be likely to be shopped by Primary Trade Area residents should be visited and assessed. These retail outlets include all hardware stores, home centers, lumber/building material outlets, mass merchandisers, discount stores, variety and drug stores and specialty stores.

The retail competitors should be delineated by location and preferably spotted on a map. All competitive departmental lines should be assessed on a rating scale. A scale of 1 to 5 has been utilized with a rating of 1 indicating that the retailer offers a minimal selection of items, and a 5 indicating an excellent departmental offering in both depth and breadth of line.

In this illustration the lawn/garden and paint departments are offered in depth by several strong competitors, indicating a possible market saturation in these lines. Plumbing has a fewer number of competitors carrying, and no competitor offers a strong plumbing departmental presentation. The hardware, tools and electrical departments have many competitors, but only a few strong competitors.

To be a consumer-oriented lumber/building material outlet the merchandise mix must include all primary hardlines plus lumber and building materials. However, due to the competitive structure of the Primary Trade Area and surrounding Market Area, strategic market thrust can be obtained by offering above average selections in departmental lines that are in poor supply.

In the illustration, based on the competitive situation and desired store image, the proposed operation should plan the following merchandise mix: Hardware — average to above average; Hand Tools — average; Electrical — average to above average; Plumbing — above average; Lawn/Garden — below average-heavy seasonal promotion only; Paint — average to below average; Paint Sundries — average to below average; Lumber, Building Materials —average to above average.

Illustration

	Hdwe.	Tools	Elec.	Plbg.	Lawn/ Gdn.	Pnt.	Sund-ries	Lmbr.	Bldg. Matl.
Site Area									
Variety Store	1	1	2	1	3	2	1		
Drug Store			1		1				
Downtown									
Home Center	5	4	5	4	4	5	5	5	3
Paint Store						5	2		
Auto Supplies		1	1						
East									
Hardware Store	4	3	4	2	5	3	3		
K-Mart	4	5	3	3	5	5	4	3	2
Lumber Outlet	2	1	2	2	1	3	3		
South									
Sears	4	5	4	4	5	5	4		2
Penney	3	4	3	3	4	4	3		
Sherwin Williams					5	5			
Gift Shop									
Super Drugs	2	1	2	2	3	2	1		
Total	25	25	27	21	36	39	26	8	7
# Of Competitors	8	9	10	8	10	10	9	2	3

Phase III

If the analysis indicates a positive environment in both the consumer and competitive characteristics of the Primary Trade Area, a formal financial analysis should then be developed. Unlike the preliminary analysis, this analysis should include the actual cost of land, building fixtures and equipment to determine the total investment required.

The analysis should also include a proforma income statement to estimate the profits (losses) for the first three years of operation. Wherever possible actual operating expenses should be utilized — rent, taxes, utilities etc. For those expense items that cannot be determined, NRHA's Lumber/Building Materials Financial Report will provide guidelines for estimation. Dependent on the projected profit (losses), total capital requirement including working capital will be determined.

One very important factor to remember is that a typical new outlet will take three years to reach maximum productivity and efficiency or what is termed "outlet maturity". Therefore do not be overly optimistic on setting performance goals.

Phase IV

Through a combined analysis of all planning phases, the consumer outlet image is developed.

Owner's Economic Constraints
Customer Identification
Posturé of Major Competitors
will determine
Size of Facility
Merchandise Mix
Service Level
Price Statement
will determine
Outlet Layout, Design and Decor
which relays
Consumer Outlet Image

Affiliated Associations

California Retail Hardware Association
William R. Maze
122 Ninth St.
San Francisco, CA 94103
(415) 552-0536

Canadian Retail Hardware Associaiton
Thomas M. Ross
6800 Campobello Road
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The Hardware Association of the Carolinas
Eleanor Brigance
412 Louise Avenue
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Illinois Retail Hardware Association
John C. Friel
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Indiana-Kentucky Hardware Association, Inc.
Richard L. Russell
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Intermountain Association
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Montana Hardware and Implement Association
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Mountain States Hardware and Implement Association
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New England Hardware Dealers Association
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Southern Association
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Southwest Hardware and Implement Association
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Hardware Association of the Virginias
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Western Retail Implement and Hardware Association
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